Study of Financial Results
And Reporting Trends

1989

U.S. Gaming INDUSTRY

Laventhol & Horwath
Leisure Time Industries Department

1989 EDITION

U.S. GAMING INDUSTRY

Ninth Annual Study of Financial Results and Reporting Trends U.S. Gaming Industry

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INTRODUCTION

In 1988 the gaming industry faced many of the same challenges it experienced in 1987.

For both casinos and lotteries, noteworthy advances in top-line performances were the rule for the year. For casinos, the major challenge continued to be how to bring a significant portion of the top line down to the bottom. For lotteries, 1988 was a year of renewed growth, with the largest portion of the increase due to new state start-ups and the recovery of the nation's largest lottery.

Additionally, 1988 was a year in which improvements in technology played ever greater roles in gaming operations. The chart that accompanies this introduction underscores a major element of this trend: coin-operated, computer-driven machines predominate in casino play.

We will return to this trend later, but first here are some industry highlights:

- Atlantic City ended calendar year 1988 with $2.73 billion in casino win, an increase of 9.4 percent.
- Nevada ended its June 30 fiscal year with $4.1 billion in casino win, an increase of 11.6 percent.
- In a revived Puerto Rico, the casino win rose to $115 million, a drop in the bucket by stateside standards, but a resounding gain of 28 percent for operations in the Commonwealth.
- Twenty-seven U.S. lotteries produced revenues of nearly $15 billion for their various fiscal years that ended in 1988. This represented a 17 percent increase over the total of $12.8 billion that 23 lotteries produced in 1987.

Hotel/Casinos

1988 was a year in which major differences between the Atlantic City and Nevada casino markets—even between the subdivisions of the Nevada market—were underscored.

Despite these differences one fundamental axiom endures: To be successful in today's leisure time market, operators must be acutely responsive to the desires and demands of the "real" market, not simply what they perceive their customer base to be. What may have worked for one market might not work for another. In the pursuit of a preconceived notion that worked in a previous market, an operation can ring up millions in losses in a new sector.

Two years ago the introduction to this publication said that successful operators in the future "must adopt strategies to attract a broader market . . . [namely] customers who are gambling for less money . . . whose objective is to budget their spendable dollars to last the length of their stay . . . " This axiom will continue to rule the path to success in 1989 and the 1990s.

—As for the financial successes and disappointments of 1988, a brief overview is in order here (with more detailed summaries on pages 21, 30 and 36).

Nevada: For fiscal 1988, "Group 1" casinos (those with over $1 million per year in casino revenue) posted a total of over $4 billion for the first time, an 11.6 percent increase. Pretax income, climbed 6.3 percent.

Once again, Clark County (with 77 casinos) was the preeminent story in Nevada and provided 66 percent of the state's casino revenue and 79 percent of the total pretax income. Currently, Clark County, which has become one of the premier resort areas of the world, is going through the greatest growth period in its history.

On the other hand, the state's attractive northern resorts still lag behind.

Atlantic City: In 1988, casino revenues increased 9.4 percent but operating income before interest and depreciation declined slightly due to large nonoperating charges by two hotel/casinos.

It was also a year in which the tenuous financial condition of some of the facilities became even more apparent, with the gap ever widening between successful operations and others. With the proposed opening of the Taj Mahal in 1990, this disparity should increase.

Puerto Rico and the Caribbean: Reflecting the period of significant tourist expansion, which began three years ago, Puerto Rico casinos had a banner year, with wins increasing 28 percent over 1987.

Lotteries

In addition to the total growth of 16.2 percent in revenues for fiscal 1988, the 27 U.S. lotteries in this report produced an increase of 15.8 percent in income for their state sponsors. This equaled a dollar increase of $736 million, bringing the total net income to $5.7 billion.

As indicated in previous editions of this publication, most of the lottery growth in the 1980s has come from new jurisdictions. However, in fiscal 1988 several older state lotteries produced significant gains. (See Lottery Comments, page 46.) The reason for these successes, like all examples of growth in any consumer-driven business, was that they gave their customers a product that attracted and pleased.

Looking Ahead

In the leisure time marketplace, competition for business and the generation of a profit will become increasingly tougher in 1989 and throughout the 1990s. Bold new facilities and concepts will offer patrons more exciting choices as the overall market continues to expand. This trend will offer growth opportunities to operators who develop and capitalize desirable markets or niches.

For casinos, globalization will be the byword. A recent study by Laventhol & Horwath projects that by the year 2000, the number of offshore visitors to the United States is expected to climb to 48 million, up from 30 million in 1987, a 60 percent rise. The importance of such visitors is underscored by the fact that they are not only coming in greater numbers,

but that they are staying in hotels three times longer than domestic guests. Among the key destinations of many such visitors (besides their ports of entry) are Las Vegas and, to a somewhat lesser extent, Atlantic City.

Slot Machine Growth

The chart below amply demonstrates the growth in slot machine play in the past eight years.

In Atlantic City, the percentage of coin-operated play has climbed from 46.1 percent of total casino revenue in 1982 to 54.6 in 1988, a spread of 8.5 percentage points or 18.5 percent. The trend is doubly important because it appears that the composition of this location's player market has not significantly changed in the past four years. Consequently, it means that the hard-core of repeat players is finding increased satisfaction in this type of game.

In Nevada, on the other hand, the marketplace has shifted noticeably in recent years, and yet the coin-operated percentage of play has grown by an even wider margin—from 44.8 percent in fiscal 1982 to 56.8 percent in fiscal 1988, a spread of 12 points, or 26.8 percent.

Slot machines, which provide the most profitable revenue portion of a casino, will continue to grow in importance for the foreseeable future. Some of the reasons are:

- Increasing sophistication of the slot games as a result of the microchip revolution.
- The newer breed of players who are not as familiar with table-game operating procedures.
- High-dollar-win jackpots that are available on today's machines.
- Increasing payoffs by slot machines so that players can play for a longer period of time and get more enjoyment for their money.
- The greater attention and recognition that casinos are giving to the machines and slot players.

A Significant Challenge

In an authoritative study, *Hotels of the Future*, conducted by Laventhol & Horwath and Horwath & Horwath International for the International Hotel Association, human resources were identified as the major concern facing the industry as it approaches the year 2000.

For the casino/hotel sector, the problem of labor availability is particularly critical. Shortages of trained personnel are already being felt in many casino locations. These will accelerate with the opening of the many new facilities under construction. Those operators who are in the forefront in good human resource policies and training will shape the success stories of the 1990s.

Comments and information from readers about any of the information in this report would be appreciated.

Saul F. Leonard
National Partner
Leisure Time and Gaming Industries

Sources of Data: The statistical information for the casino section of this study has been assembled from information in the individual companies' annual reports to shareholders, 10-Ks submitted to the Securities and Exchange Commission (SEC), reports filed with the New Jersey Control Commission and information contained in the Nevada Gaming Abstract.

Because there are wide differences in the ways companies record costs in operating statements, and because some of the companies derive all their revenues from gaming operations, while others derive only a portion of revenue from this source, direct comparisons of corporate operating results may not be meaningful.

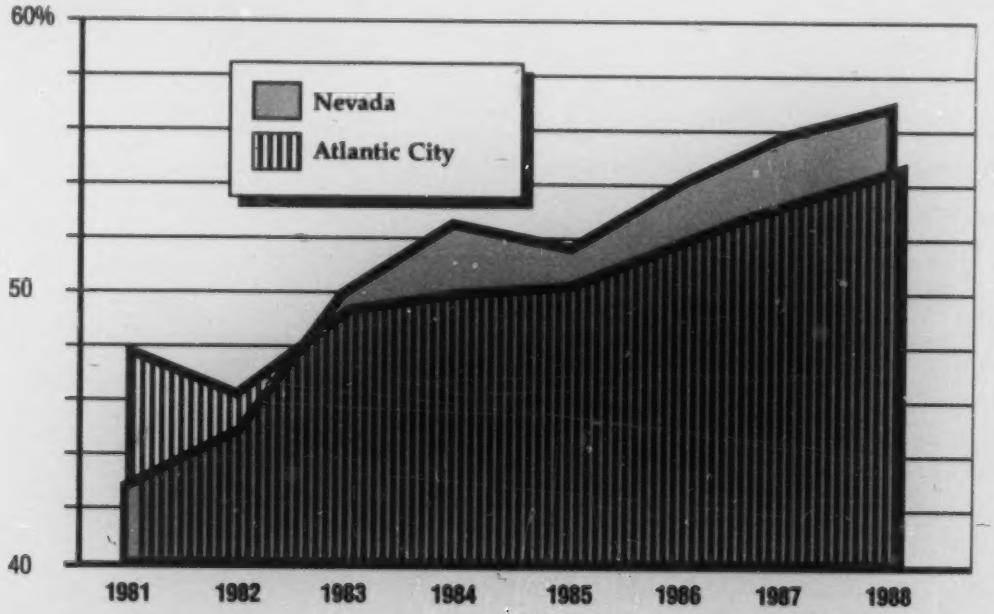
Furthermore, in 1988, mergers and acquisitions changed the makeup of several companies included in this report.

Additionally, many companies have different fiscal year-ends. Thus, the information is not always for the same period. Therefore, the operating results and percentages in this study should not be considered standards for the industry, nor are they necessarily desirable goals.

Information for state lotteries was obtained from the public annual reports issued by the state agencies and from additional financial information furnished by those agencies. Again, direct comparison between individual lotteries may not be meaningful because of differences in state population, mix of types of lotteries, differences in fiscal year ends and other factors.

Trend of Coin Machine Win in Casinos

As a Percentage of Casino Revenue



Source: Laventhol & Horwath.

CORPORATIONS INCLUDED IN THIS STUDY

Table A	Fiscal Year-End	Casino Sq. Ft. (Approx.)	Guest Rooms	Total Guest Rooms
Bally Manufacturing Corporation	12/31/88			
Bally's, Las Vegas		62,500	2,800	
Bally's, Reno		100,000	2,000	
Bally's Grand, Atlantic City		45,500	500	
Bally's Park Place, Atlantic City		60,000	510	5,810
Caesars World, Inc.	7/31/88			
Caesars Atlantic City, Atlantic City (86.6% interest)		60,000	644	
Caesars Palace, Las Vegas		75,000	1,608	
Caesars Tahoe, Lake Tahoe		40,000	446	2,698
California Hotel and Casino	6/30/88			
California Hotel, Las Vegas		36,000	635	
Fremont, Las Vegas		32,000	450	
Sam's Town, Boulder Highway		69,000	204	
Stardust, Las Vegas		79,000	1,367	2,656
Gold River, Laughlin (17.1% interest; management contract)		32,000	225	225
Circus Circus Enterprises, Inc.	1/31/89			
Circus Circus, Las Vegas		110,000	2,793	
Circus Circus, Reno		60,600	1,625	
Colorado Belle, Laughlin		64,000	1,034	
Edgewater Hotel and Casino, Laughlin		57,000	595	
Silver City Casino, Las Vegas		18,200		
Slots-A-Fun Casino, Las Vegas		16,700		6,047
Elsinore Corporation[1]	12/31/88			
Atlantis Casino Hotel, Atlantic City (77.9% interest)[2]		50,601	500	
Four Queens Hotel and Casino, Las Vegas		32,296	696	1,196
Golden Nugget, Inc.	12/31/88			
Golden Nugget, Las Vegas		38,000	1,907	
Golden Nugget, Laughlin[3]		22,000	84	1,991

[1]Hyatt Lake Tahoe Hotel and Casino, Lake Tahoe, sold September 30, 1988.
[2]91.5% interest prior to September 30, 1988; closed May 1989.
[3]Acquired October 1, 1988.

	Fiscal Year-End	Casino Sq. Ft. (Approx.)	Guest Rooms	Total Guest Rooms
Hilton Hotels Corporation	12/31/88			
Flamingo Hilton, Las Vegas		34,000	2,927	
Las Vegas Hilton, Las Vegas		67,000	3,174	
Reno Hilton, Reno		58,000	603	6,704
Gold Coast Conrad International Hotel and Jupiters Casino, Queensland, Australia (10% interest, management contract)		60,000	622	622
Holiday Corporation	12/31/88			
Bill's Casino, Lake Tahoe		18,000		
Harrah's, Lake Tahoe		59,000	535	
Harrah's, Reno		62,000	565	
Harrah's Marina Hotel/Casino, Atlantic City		60,000	760	
Holiday Casino, Las Vegas		69,000	991	
Harrah's Del Rio, Laughlin[4]		24,600	464	3,315
Pratt Hotel Corporation	12/31/88			
Sands Hotel and Casino, Atlantic City		50,000	500	500
Sands, San Juan (49% interest, management contract)		10,000	456	456
Ramada Inc.	12/31/88			
Eddie's Fabulous 50's, Reno		35,000		
TropWorld, Casino and Entertainment Resort, Atlantic City		88,000	1,014	
Tropicana Resort and Casino, Las Vegas		45,000	1,911	
Ramada Express, Laughlin[5]		30,000	406	3,331
Resorts International, Inc.	12/31/88			
Paradise Island Resort & Casino, Nassau, Bahamas		30,000	1,371	
Resorts International Casino Hotel, Atlantic City		60,000	685	2,056
Sahara Resorts	9/30/88			
Hacienda Resort Hotel and Casino, Las Vegas (63.7% interest)		19,000	832	
Sahara Hotel and Casino, Las Vegas (63.7% interest)		52,000	1,500	
Pioneer Hotel and Gambling Hall, Laughlin (63.7% interest)[6]		21,500	417	2,749
Showboat, Inc.[7]				
Showboat, Las Vegas		45,000	495	
Showboat, Atlantic City		60,000	516	1,011
Union Plaza Hotel and Casino, Inc.	12/31/88			
Union Plaza Hotel and Casino, Las Vegas		80,000	1,037	1,037

[4]Opened August 1988.
[5]Opened June 1988.
[6]Acquired December 1, 1988.
[7]Change of fiscal year-end; 1987 figures are presented as of and for the year ended 6/30/87; 1988 figures are presented as of and for the year ended 12/31/88.

CONSOLIDATED CORPORATE OPERATING RESULTS

Table B
Consolidated Corporate Operating Results
($000 Omitted)

	Total Revenue*		Income From Operations**			
					Percent Total Revenue	
	1988	1987	1988	1987	1988	1987
Bally Manufacturing Corporation	$1,940,765	$1,730,128	$ 66,881	$ 6,424	3.4	.4
Caesars World, Inc.	843,685	794,778	128,493	83,497	15.2	10.5
California Hotel and Casino	287,716[2]	296,698[2]	5,389	14,940	1.9	5.0
Circus Circus Enterprises, Inc.	513,453	462,969	109,957	100,736	21.4	21.8
Elsinore Corporation[1]	120,597	100,135	40,886	10,171	33.9	10.2
Golden Nugget, Inc.	213,645	216,929	(11,399)	179,080	***	82.6
Hilton Hotels Corporation	986,200[2]	866,722[2]	184,800	211,900	18.7	24.4
Holiday Corporation	1,596,628[2]	1,664,767[2]	183,075	184,127	11.5	11.1
Pratt Hotel Corporation	242,435[2]	227,257[2]	(25,008)	(3,355)	***	***
Ramada Inc.	476,645[2]	407,622[2]	(1,070)	(4,246)	***	***
Resorts International, Inc.	460,210	460,914	(388,430)	13,806	***	3.0
Sahara Resorts	93,712	97,280	(1,958)	960	***	1.0
Showboat, Inc.	296,925	116,674	(6,288)	(7,770)	***	***
Union Plaza Hotel and Casino, Inc.	64,052	62,351	2,373	1,791	3.7	2.9

*Represents revenue after deduction for promotional allowances. Total revenue includes interest.
**Represents income before income taxes, minority interest, discontinued operations and extraordinary items.
***Not applicable; loss for the year.

Where applicable, for comparison purposes, 1987 changed to conform to 1988 presentation.
[1]Excludes operations of Atlantis Hotel/Casino (other than net income). Atlantis operations are shown as discontinued operations.
[2]Excludes revenue of joint ventures and/or entities recorded on equity basis and/or entities operated under management contract.

Table B presents details about operating results of major operators in the U.S. casino gaming industry. A caveat, however: many factors, some nonrecurring, enter into a company's operating results. Therefore, a comparison of year-to-year operating results, and the percentage relationships between companies or years, is not always meaningful without obtaining more detailed financial information.

For 1988, total revenue increased 7.0 percent. Income from operations declined to 3.5 percent of revenue compared with 10.5 percent for 1987. A major factor was loss from property sales in 1988 contrasted to gains in 1987. Excluding property transactions, income from operations increased in 1988. It also accounted for the decline in net income to 1.2 percent of total revenue in 1988 from 6.8 percent in 1987. Cash provided by operations increased 22.0 percent in 1988.

In 1988, casino/hotel revenue increased about 11 percent and approximated 73 percent of total revenue compared with 70 percent for 1987.

Net Income				Cash Provided By Operations		Casino/Hotel Revenue*			
		Percent Total Revenue						Percent Total Revenue	
1988	1987	**1988**	1987	**1988**	1987	**1988**	1987	**1988**	1987
$ 29,977	$ 46,390	**1.5**	2.7	**$185,741**	$ 26,158	**$930,977**	$869,840	**48.0**	50.3
77,032	33,695	**9.1**	4.2	**113,676**	117,370	**779,945**	741,733	**92.4**	93.3
2,425	7,138	**.8**	2.4	**32,986**	37,799	**287,121**[3]	294,193[3]	**99.8**	99.2
81,714	55,900	**15.9**	12.1	**110,014**	87,981	**511,960**	458,856	**99.7**	99.1
13,591	(18,902)	**11.3**	•••	**6,559**	(26,504)	**85,174**	96,594	**70.6**	96.5
(7,559)	137,549	•••	63.4	**50,100**	26,491	**175,009**	194,237	**81.9**	89.5
130,900	139,856	**13.3**	16.1	**217,600**	189,200	**695,300**[3]	589,683[3]	**70.5**	68.0
87,577	108,145	**5.5**	6.5	**111,585**	134,598	**781,104**	717,123	**48.9**	43.1
(13,748)	(7,655)	•••	•••	**2,578**	15,417	**226,371**[3]	209,894[3]	**93.4**	92.4
(5,100)	4,912	•••	1.2	**13,458**	13,751	**476,645**	407,622	**100.0**	100.0
(381,430)	9,806	•••	2.1	**(11,888)**	28,062	**437,646**	434,610	**95.1**	94.3
(727)	296	•••	.3	**(445)**	7,107	**84,293**	88,501	**89.9**	91.0
(2,725)	(5,214)	•••	•••	**17,747**	32,191	**294,989**	114,344	**99.3**	98.0
1,492	954	**2.3**	1.5	**7,219**	8,173	**63,906**	62,227	**99.8**	99.8

GROSS OPERATING PROFIT OF GAMING OPERATIONS

Table C
Gross Operating Profit of Gaming Operations
($000 Omitted)

	(a) Casino Revenue		(b) (a) As a Percentage of (c)		(c) Hotel and Other Revenue*	
	1988	1987	**1988**	1987	**1988**	1987
Bally Manufacturing Corporation	**$671,429**	$616,998	**72.1**	70.9	**$259,548**	$252,842
Caesars World, Inc.	**635,530**	592,939	**81.5**	79.9	**144,415**	148,794
California Hotel and Casino	**212,090**	220,767	**73.9**	75.0	**75,031**	73,426
Circus Circus Enterprises, Inc.	**320,190**	284,480	**62.5**	62.0	**191,770**	174,376
Elsinore Corporation[1]	**60,362**	65,536	**70.9**	67.8	**24,812**	31,058
Golden Nugget, Inc.	**112,966**	136,613	**64.5**	70.3	**62,043**	57,624
Hilton Hotels Corporation	**319,800**	265,313	**46.0**	45.0	**375,560**	324,370
Holiday Corporation	**631,016**	571,656	**80.8**	79.7	**150,088**	145,467
Pratt Hotel Corporation	**205,667**	192,554	**90.2**	91.7	**20,704**	17,340
Ramada Inc.	**358,295**	302,565	**75.2**	74.2	**118,350**	105,057
Resorts International, Inc.	**307,626**	304,298	**70.3**	70.0	**130,020**	130,312
Sahara Resorts	**46,667**	50,443	**55.4**	57.0	**37,626**	38,058
Showboat, Inc.	**243,950**	88,267	**82.7**	77.2	**51,039**	26,077
Union Plaza Hotel and Casino, Inc.	**42,763**	41,970	**66.9**	67.4	**21,143**	20,257

*Hotel and other revenue is shown after deducting promotional allowances.
**Not applicable; loss for the year.
[1]Excludes operations of Atlantis Hotel/Casino.

In Table C the revenue and gross operating profits of gaming operations are shown separately so that these benchmarks may be more closely analyzed. In this context, gross operating profit is operating profit, after all operating costs, but before interest costs and unallocated corporate expenses.

Information for this table has, for the most part, been obtained from "business segment" sections of annual reports of diversified corporations, or by adding interest costs to the indicated operating profits of corporations that are solely in the hotel/casino business.

Total 1988 casino revenue increased 11.6 percent while hotel and other revenue rose 7.5 percent. 1988 casino revenue was 71.5 percent of total casino/hotel revenue compared with 70.7 percent for 1987. Gross operating profit approximated 16 percent for both years.

(d) (c) As a Percentage of (e)		(e) Total Casino/Hotel Revenue*		(f) Gross Operating Profit		(g) (f) As a Percentage of (e)	
1988	1987	**1988**	1987	**1988**	1987	**1988**	1987
27.9	29.1	**$930,977**	$869,840	**$150,188**	$148,097	**16.1**	17.0
18.5	20.1	**779,945**	741,733	**166,819**	144,620	**21.4**	19.5
26.1	25.0	**287,121**	294,193	**36,815**	45,571	**12.8**	15.5
37.5	38.0	**511,960**	458,856	**120,469**	119,246	**23.5**	26.0
29.1	32.2	**85,174**	96,594	**19,159**	19,503	**22.5**	20.2
35.5	29.7	**175,009**	194,237	**33,854**	25,850	**19.3**	13.3
54.0	55.0	**695,300**	589,683	**128,600**	107,744	**18.5**	18.3
19.2	20.3	**781,104**	717,123	**160,414**	138,369	**20.5**	19.3
9.1	8.3	**226,371**	209,894	**3,374**	7,991	**1.5**	3.8
24.8	25.8	**476,645**	407,622	**39,961**	30,686	**8.4**	7.5
29.7	30.0	**437,646**	434,610	**42,661**	53,804	**9.7**	12.4
44.6	43.0	**84,293**	88,501	**(339)**	8,960	**	10.1
17.3	22.8	**294,989**	114,344	**(6,268)**	(7,770)	**	**
33.1	32.6	**63,906**	62,227	**7,114**	6,802	**11.1**	10.9

COMMENTS FROM CORPORATIONS PRIMARILY IN THE GAMING INDUSTRY

The following are samples of comments taken from annual reports to shareholders of companies primarily engaged in the gaming business. For purposes of this study, these are defined as companies that derive 85 percent or more of their revenues from casino/hotel sources. Several of these companies this year substituted their SEC filing on Form 10-K for their annual report to shareholders. In these instances comments with no signature are derived from this source.

Caesars World, Inc.

"Fiscal 1988 marked the fifth consecutive year of improved operating income for your Company."

". . . All of our destination resort properties were key factors in this achievement. . . . Each established record contributions to pretax earnings. . . ."

"Net income per share comparisons were favorably affected by the Company's purchase of 11,000,000 shares of its common stock during the fiscal 1988 first quarter. The effect of this decrease in outstanding shares was partially offset by a reduction in net income from interest expense associated with debt incurred to finance the stock purchase. . . ."

". . . As we look at Caesars World's financial position today, we see cash flow from operations far exceeding debt requirements . . . with the flexibility to take advantage of business opportunities likely to arise. . . ."

". . . Increasing competition, including gaming and room capacities, requires that we continually provide an even more unique and exciting destination resort experience. . . ."

"Future success in our business requires concentration on every nuance of the industry, such as increased productivity through the latest in gaming technologies. We are well focused on the future."

"A 35,000-square-foot casino expansion is under way at Caesars Palace in Las Vegas, increasing casino capacity by 47 percent. . . ."

". . . During the next two fiscal years, Caesars Palace will spend approximately $190,000,000 on capital improvements, including an extensive remodeling program. . . ."

". . . In northern Nevada, Caesars Tahoe reported operating profits every quarter for the second consecutive fiscal year. . . . On the eastern seaboard, Caesars Atlantic City led its highly competitive marketplace in total casino win for the third consecutive fiscal year. . . . In addition, Caesars Atlantic City's future cash flow will be favorably impacted by the exercise of an option to purchase substantially all of its leased property . . . effective July 1, 1989. . . ."

Henry Gluck
Chairman of the Board and
Chief Executive Officer

J. Terrence Lanni
President and
Chief Operating Officer

California Hotel and Casino

"The Company has planned the construction and acquisition of its hotel/casinos in order to tap specific geographic markets and to attract a broad range of visitors with a particular emphasis on middle-income patrons. The Company is one of the only casino operators in Nevada with locations in three different gaming areas in Las Vegas as well as Laughlin. . . ."

"The location of the Company's properties and the moderate pricing of its rooms, food and entertainment reflect the Company's marketing and operating philosophy which emphasizes high-volume business centered around middle-income customers. . . ."

"Each of the Company's properties is designed to appeal to a distinct audience. . . . Because the Company draws largely middle-income customers, it is able to incur lower promotional expenses than hotel/casinos catering to high-income customers. . . ."

"Consistent with its high-volume strategy . . . the Company emphasizes slot machine wagering at all of its properties. Slot machine gross revenues constituted approximately 59% and 60% of the Company's gaming revenues in fiscal 1987 and 1988, respectively. . . ."

". . . Selling, general and administrative expenses increased . . . most of which is attributable to Sam's Town and the Stardust [which] experienced business disruption during the fiscal year as a result of major construction projects . . ."

Circus Circus Enterprises, Inc.

"In just over a year's time, Circus will expand it operations on a scale comparable to our expansions during the past five years. Since our initial public offering in late 1983, our vigorous expansions in our three Nevada markets have driven our superior record of earnings, cash flows and returns."

"Our ambition is to keep the same high course over the coming few years as results of our new projects join with continuing growth at our existing operations. . . ."

"We believe that Circus possesses distinctive strengths, and we direct our new investments toward them. Through the years we have delivered substantial value to our middle-income customers by offering a lot of entertainment experience for a modest price. . . ."

". . . We are now engaged in the largest capital spending program in our company's history. Two new projects, Excalibur in Las Vegas and the renovation of the Edgewater in Laughlin will add approximately 5,000 rooms. . . ."

". . . During the last year, Circus has bought back nearly eight million shares. . . ."

"Our growth in operating results was spurred in the first half of fiscal 1989 by the Colorado Belle, which was finishing

its initial year of operations. . . ."

"This year will find the going a bit tougher."

"Circus Circus-Las Vegas should be the lead contributor to growth in our operating results . . . We expect Circus-Circus Reno . . . to register no better than mild increases in operating results."

"In Laughlin . . . our two resorts will take on a couple of challenges. The market is still working through the absorption of casino space opened by two new competitors last summer. . . . On a combined basis, the Belle and Edgewater will certainly be in for tight comparisons against last year's results. . . ."

"One of our company's hallmarks is strong and dependable cash flow. This provides us with the financial flexibility to pursue new ideas, and, to sum up our current actions, the measured ability to undertake two big changes at once, major expansion of our operating capacity and financial restructuring. . . ."

William G. Bennett
Chairman and Chief Executive Officer

Richard P. Banis
President and Chief Operating Officer

Golden Nugget, Inc.

"The Golden Nugget in downtown Las Vegas continued to demonstrate its broad-based appeal during 1988. This premier facility . . . was significantly expanded in 1986 and 1987. . . . The record-setting operating revenues, combined with sophisticated management controls . . . resulted in operating expenses increasing only 1%, [producing] operating income and cash flow levels never previously attained."

"Our confidence in the strength of the downtown Golden Nugget was recently reaffirmed by the financial community. In early April 1989, based exclusively upon the outstanding performance of the . . . facility, we concluded a $150,000,000 debt financing. . . ."

". . . As 1988 began, The Mirage, our new, tropically themed destination resort on the Las Vegas Strip, was a graded parcel of 85 acres with the beginnings of a foundation. As of this writing, the 29-story hotel tower dominates the Las Vegas Strip . . . We are confident that The Mirage, which is scheduled to open December 1, 1989, will be a major Las Vegas attraction for many years to come."

"With our acquisition of Del Webb's Nevada Club in October 1988, we entered the thriving gaming market in Laughlin . . . The casino . . . renamed the 'Golden Nugget-Laughlin,' is ideally positioned near the center of the main casino row, with substantial frontage on the Colorado River. We are presently designing a significant expansion . . . which will initially include a high-rise tower [of] approximately 915 rooms, a low-rise building with a casino and related customer amenities and a multi-story garage for about 1,425 vehicles. . . ."

Stephen A. Wynn
Chairman of the Board and President

Pratt Hotel Corporation

"1988 was a significant and transitional year . . . as we moved to concentrate our management expertise and assets on the casino gaming industry."

"We experienced a substantial loss primarily from our non-casino hotel operations—which we are attempting to dispose—higher interest costs due to increased borrowings. . . ."

". . . As part of [our disposal strategy] we sold our New York Maxim's de Paris Hotel . . . and realized a $5.7 million gain. . . ."

". . . [In Atlantic City] we are seeking various forms of [legal] relief [to prevail in our claim] of our pre-existing agreement with Penthouse to acquire . . . the [old Penthouse Casino/Hotel] site . . . and thus begin construction of our second Atlantic City casino, the Sands/Hollywood . . ."

". . . The November opening of the Sands Hotel and Casino in San Juan, Puerto Rico, marked our re-entry into the Caribbean. . . . We have also signed a letter of intent to operate the Sands Hotel, Casino and Country Club in Dorado, Puerto Rico, and to acquire a 15.8% interest in the property which is expected to open in 1991. . . ."

Jack E. Pratt
Chairman of the Board and Chief Executive Officer

William P. Weidner
President and Chief Operating Officer

Ramada, Inc.

"As 1989 begins, the company known for so long as 'Ramada' finds itself undergoing greater change than any the company has ever experienced. The Company that emerges from that change will be quite different from the company of the past, but at the same time the company will be shaped by the experience of that past. . . ."

". . . Out of that experience, the company now finds itself narrowing its focus. Gaming—a business the company turned to as it diversified at the beginning of the 1980s—has become the business of choice for the company to concentrate on in the early 1990s."

"Gaming has contributed well over half of the company's total operating income (excluding gains from property dispositions) over the past five years. And now with the recent completion of our ambitious expansion program begun in 1984, our gaming business is positioned for further growth, particularly as the new and expanded properties move through their start-up phases."

". . . The decision to sell the hotel and restaurant business is consistent with the direction the company has been moving in the past five years. . . ."

". . . It would have taken unusual foresight to predict . . . that gaming would be the company's only business by the end of the decade. . . . The change [is] reflected throughout this annual report, in part because our hotel and restaurant businesses are treated for accounting purposes as 'discontinued operations,' even though we may not have sold them yet. . . ."

"For gaming, 1988 was a year of reaching several significant milestones, the most significant being the completion of the two-year, $200 million expansion project at TropWorld Casino and Entertainment Resort in Atlantic City."

"The Ramada Express Hotel and Casino in Laughlin . . . last June was

completed ahead of schedule and under budget. . . ."

"In Las Vegas, the Tropicana Resort and Casino truly hit its stride in 1988 . . ."

Richard Snell
Chairman of the Board and President

Resorts International, Inc.

". . . On November 15, 1988, the Company (RII) was acquired by the Griffin Company . . . an entity wholly owned by Mr. Merv Griffin, and significant changes were made in the Company's executive management. Prior to that date, and since July 21, 1987, the Company had been controlled by Mr. Donald Trump. . . ."

". . . The . . . new management has undertaken an extensive review and examination of the Company's assets and operations in order to develop and implement a business plan that will best serve the Company's short-term as well as its longer-term needs. . . ."

"Effective November 16, 1988, RII . . . sold . . . real and personal property, principally the Taj Mahal, a 1250-room casino hotel to Trump . . . for $273,000,000 in cash and the assumption of certain liabilities. . . ."

"Current management believes that . . . [its] share of total Atlantic City win has been adversely affected by, among other things, the prior failure to improve and modernize the Resorts Casino Hotel and the lack of adequate enclosed parking. Also, under prior management the Company incurred above normal costs to obtain the amount of win it had achieved in 1988. The Company is now redefining its marketing efforts in the Atlantic City market . . . [to develop] programs that emphasize the mid-market level. The Company has not previously engaged in any significant market research or development of data bases regarding former, current and prospective customers. The lack of such prior research and development . . . is a significant competitive disadvantage [and] will cause the Company to incur significant unanticipated expenses and will delay implementation of its marketing program. . . ."

Sahara Resorts

". . . Sahara Resorts reported a net loss . . . for the year ended September 30, 1988 as compared with net income . . . for the previous fiscal year [and] operating revenues decreased . . . primarily as a result of lower casino revenue, which was adversely affected by construction at the Sahara. . . ."

". . . [However] the achievements your company realized during the fiscal year 1988 signify our commitment to sustained growth in all aspects of the gaming and hospitality industries. We successfully completed a major expansion program, initiated the acquisition of a third hotel/casino, and began preparations for further expansion of existing properties."

"The impressive transformation of the Sahara Hotel and Casino was all-encompassing: The casino expansion and renovation was completed; a new lounge, deli restaurant, race and sports center and meeting facilities were constructed; 400 existing guest rooms were remodeled; and, highlighting the year, a new 575-guest room tower was opened on Labor Day weekend, two months ahead of schedule. . . ."

". . . The development and implementation of our strategies to increase our shareholders' net value is our prime objective. With that in mind we are formulating plans for the expansion and renovation of the Hacienda Resort Hotel and Casino. . . ."

". . . [In August 1988] we announced our agreement to purchase the Pioneer Hotel and Gambling Hall in Laughlin . . . The Pioneer is situated on twelve acres of prime riverfront property . . . The 200,000 square foot complex features a western theme with 417 guest rooms and a 21,500-square-foot casino. . . ."

Paul W. Lowden
Chairman of the Board
President and
Chief Executive Officer

Showboat, Inc.

". . . Undoubtedly, our most important achievement last year was the final quarter turnaround in Atlantic City, where we added new management in certain key operating positions, initiated a more targeted marketing effort, rejuvenated enthusiasm among our staff members and developed a detailed strategic plan to improve our bottom line."

"However, costs associated with programs for the first and second quarters impeded our profits for the year. . . ."

". . . Despite the earnings disappointment for the twelve months . . . last year's restructuring efforts bore fruit in the final quarter which saw revenues expand by 16% and income from operations jump by 344% . . ."

". . . We are convinced that Showboat is now well positioned to capitalize on the continuing improvement of the Atlantic City infrastructure. We anticipate the opening in 1990 of Trump's Taj Mahal and welcome the increase in customer volume this will bring to the north end of the Boardwalk. We also look forward to the initiation of train service from Philadelphia in 1989. . . ."

". . . We are now investigating ways to revitalize our Las Vegas facilities and further broaden their appeal. We intend to capitalize on the city's population growth, and the gaming industry's current boom by concentrating on our strengths."

". . . Joseph H. Kelley retired as Showboat's Chairman in December 1988 with more than 50 years in casino management. . . . We are indebted to [him] for his vision during his 34 years with Showboat. . . ."

J.K. Houssels
Chairman

Union Plaza Hotel and Casino, Inc.

". . . Improved earnings have enhanced cash flow and enabled the Company to reduce its formal debt . . . during 1988. . . ."

". . . All of the Company's outside activities have been removed and management's full attention is directed toward improving operations at the Union Plaza Hotel and Casino . . ."

John D. Gaughan
Chairman of the Board and
Chief Executive Officer

COMMENTS FROM DIVERSIFIED CORPORATIONS WITH GAMING INTERESTS

Bally Manufacturing Corporation

". . . 1988 was a great year for Bally. I say this even though the regulatory resistance to our spin-off was a major disappointment. . . ."

". . . We are the largest casino operator in the world. . . . Within a few months our new [1,300-room] hotel tower will open at [Bally's Park Place, Atlantic City]."

". . . After purchasing the Bally Grand [Atlantic City] we were faced with the difficult project of introducing our sophisticated and highly computerized casino management system at the property. . . . That job is almost done and earnings should accelerate in the near future . . . [The Bally Grand, Las Vegas] is in the process of a major remodeling. This will take some time to complete because we are looking for the right mixture to take this hotel to the number one spot in Las Vegas. . . . Our operation in Reno had its best year ever. . . ."

". . . Bally's two major areas of operations, fitness and gaming, are universally accepted as having potentially explosive growth in the decade of the '90's . . ."

". . . During 1988 the Gaming Equipment Division completed shipping video poker machines to the U.S. Army and Air Force bases. . . . A new video card game was introduced . . . in Las Vegas, and was enthusiastically received throughout the year."

". . . The division [also] introduced an electronic video Keno game in Montana which provides records of winnings via printout, as required by Montana law. The unit also . . . license[d] an electronic bill changer coupled with a slot machine, which has passed an early test at Bally's Park Place . . . "

"Scientific Games, Inc. experienced a major turnaround . . . with a solid performance capped by a contract award from Virginia in the fourth quarter. . . . Scientific Games presently has contract for instant tickets in 14 [lottery] states and on-line contracts in 6 states. . . ."

Robert E. Mullane
Chairman of the Board
Chief Executive Officer

Roger N. Keese
President and Chief
Operating Officer

Hilton Hotels Corporation

". . . Your Company achieved record revenues and earnings from operations for the second consecutive year, continuing its positive momentum both financially and operationally. Both lodging and gaming made significantly improved contributions to earnings. . . ."

". . . The gaming segment enjoyed excellent growth in 1988, as revenue and income contribution increased 13 percent and 19 percent respectively. . . ."

". . . The Flamingo Hilton and the Las Vegas Hilton continue to benefit from effective marketing of the area's tourist and convention appeal. The Flamingo Hilton caters to the broad Las Vegas middle market, while the Las Vegas Hilton offers more upscale amenities and entertainment. . . ."

". . . The Las Vegas Hilton is in the midst of a massive refurbishing program . . . In 1988, 600 rooms and 95 suites were taken out of service and completely . . . refurbished. . . . The Flamingo Hilton is adding 733 new [tower] rooms by year-end [making it], at 3,558 rooms, the largest hotel in the world. . . . The Reno Hilton . . . later this year . . . will begin [work] on a $45 million addition that will add approximately 1,000 rooms and 1,500 parking spaces. With these changes the property will be renamed the Flamingo Hilton-Reno . . . In Laughlin, we are building a new hotel with up to 2,000 rooms and 50,000 sq.ft. casino. . . ."

". . . With the completion of the expansion programs . . . at a cost of more than $300 million, Hilton casino space will more than double. . . ."

Barron Hilton
Chairman and President

Holiday Corporation

"Five years ago, we embarked on a financial strategy which was to work in tandem with our operating strategy to maximize stockholder value . . . We have successfully completed that financial strategy in 1988 . . . "

". . . Our financial strategy had several objectives:

- increase leverage for higher returns on equity;
- reduce capital intensity and realize the accumulated appreciation of our real estate assets; and
- distribute the proceeds of asset sales to our stockholders."

". . . Our gaming business has generated strong returns for us and we will continue the opportunistic expansion of our casino properties. Since 1980, when we acquired Harrah's, the cash flow contributed from gaming, defined as operating income including property transactions plus depreciation, has grown at a 25 percent compound annual rate. . . ."

". . . In 1988 our gaming business accounted for roughly one-half of our total revenues and operating income. . . ."

". . . We took several steps during the year to ensure the continued growth of this important business, including the opening of a new casino/hotel in Laughlin, Nev., and the expansion of our Las Vegas property. . . ."

". . . Harrah's Del Rio is the eighth casino/hotel to be opened in Laughlin and the only property with a developed beachfront on the river."

". . . Harrah's . . . is the only [gaming] company now represented in all the major U.S. gaming markets: Las Vegas, Reno, Lake Tahoe, and Laughlin in Nevada; and Atlantic City. . . ."

Michael D. Rose
Chairman, President and
Chief Executive Officer

CASINO REVENUE AND PROMOTIONAL ALLOWANCES

Promotional allowances—in the form of complimentary rooms, food and beverages ("comps")—are an integral part of the hotel/casino industry and are considered routine costs for improving business.

However, in recent years, such allowances have increasingly come under considerable examination within the industry and among financial analysts. The question is: To what extent do comps capture and hold business? What is their value in terms of their costs as a percentage of business revenues?

Precise analysis is difficult. One of the reasons is that the amounts shown in Table D represent the retail value of these complimentary goods and services, whereas the actual costs to the hotel/casino are much less. Considerable sums are also spent for promotional expenses, including free travel and cash giveaways. Promotional allowances represent just one segment of total marketing costs.

While a discernable trend is difficult, it is interesting to note that in 1988 for the companies providing this information, promotional allowances increased 17.4 percent while casino revenue increased only 11.6 percent. Total promotional allowances were 12.1 percent of casino revenue for 1988 as compared with 11.5 percent for 1987.

Table D
Casino Revenue and Promotional Allowances
($000 Omitted)

	Casino Revenue		Promotional Allowances		As a Percentage of Casino Revenue	
	1988	1987	**1988**	1987	**1988**	1987
Bally Manufacturing Corporation	**$671,429**	$616,998	**$ 89,545**	$80,139	**13.3**	13.0
Caesars World, Inc.	**635,530**	592,939	**101,597**	94,388	**16.0**	15.9
California Hotel and Casino	**212,090**	220,767	**22,788**	22,589	**10.7**	10.2
Circus Circus Enterprises, Inc.	**320,190**	284,480	**17,481**	15,748	**5.5**	5.5
Elsinore Corporation[1]	**60,362**	65,536	**8,144**	8,390	**13.5**	12.8
Golden Nugget, Inc.	**112,966**	136,613	**N/A**	N/A	**N/A**	N/A
Hilton Hotels Corporation	**319,800**	265,313	**38,300**	34,921	**12.0**	13.2
Holiday Corporation	**631,016**	571,656	**82,841**	70,777	**13.1**	12.4
Pratt Hotel Corporation	**205,667**	192,554	**22,931**	20,080	**11.1**	10.4
Ramada Inc.	**358,295**	302,565	**41,300**	35,141	**11.5**	11.6
Resorts International, Inc.	**307,626**	304,298	**32,807**	28,641	**10.7**	9.4
Sahara Resorts	**46,667**	50,443	**8,564**	7,573	**18.4**	15.0
Showboat, Inc.	**243,950**	88,267	**32,954**	5,597	**13.5**	6.3
Union Plaza Hotel and Casino, Inc.	**42,763**	41,970	**7,152**	7,057	**16.7**	16.8

N/A — Not available.
[1]Excludes operations of Atlantis Hotel/Casino.

GAMING OPERATING PROFIT AS A PERCENTAGE OF GAMING ASSETS

Table E reflects gaming gross operating profit as a return on gaming operations assets. In general, the amount of identifiable gaming operations assets was obtained from the "business segment" sections of annual reports of diversified corporations, or as total assets for corporations that are solely hotel/casino corporations.

(For a definition of gaming gross operating profit, see page 9.) Gross operating profit as a percentage of identifiable gaming operations assets approximated 13 percent for both years. As in prior years, the dynamic year-to-year changes of individual companies are highlighted in this table.

Table E
Gaming Operating Profit as a Percentage of Gaming Assets
($000 Omitted)

	Identifiable Gaming Operation Assets		Gaming Gross Operating Profit		As a Percentage of Assets	
	1988	1987	**1988**	1987	**1988**	1987
Bally Manufacturing Corporation	**$1,627,047**	$1,582,285	**$150,168**	$148,097	**9.2**	9.4
Caesars World, Inc.	**577,203**	577,438	**166,819**	144,620	**28.9**	25.0
California Hotel and Casino	**386,735**	377,189	**36,815**	45,571	**9.5**	12.1
Circus Circus Enterprises, Inc.	**524,112**	529,057	**120,469**	119,246	**23.0**	22.5
Elsinore Corporation[1]	**107,049**	136,757	**19,159**	19,503	**17.9**	14.3
Golden Nugget, Inc.	**1,037,726**	545,544	**33,854**	25,850	**3.3**	4.7
Hilton Hotels Corporation	**558,000**	444,454	**128,600**	107,744	**23.0**	24.2
Holiday Corporation	**868,233**	830,664	**160,369**	138,369	**18.5**	16.7
Pratt Hotel Corporation	**N/A**	N/A	**3,374**	7,991	**N/A**	N/A
Ramada Inc.	**427,510**	354,404	**39,961**	30,686	**9.3**	8.7
Resorts International, Inc.	**672,129**	743,524	**42,661**	53,804	**6.3**	7.2
Sahara Resorts	**126,542**	92,451	**(339)**	8,960	*	9.7
Showboat, Inc.	**314,988**	337,113	**(6,268)**	(7,770)	*	*
Union Plaza Hotel and Casino, Inc.	**68,607**	73,084	**7,114**	6,802	**10.4**	9.3

N/A — Not available.
*Not applicable; loss for the year.
[1] Excludes operations of Atlantis Hotel/Casino.

CORPORATE INTEREST EXPENSE, DEPRECIATION AND AMORTIZATION

Corporate interest expense fluctuated widely in 1988. Debt financing for acquisition or construction of hotel/casino properties or corporate recapitalizations resulted in increased interest expense for several corporations. Total interest expense in 1988 was 122.9 percent of 1987's total interest.

It should be noted that interest expenses as set forth are interest costs net of such costs capitalized. Therefore, this tabulation may not give a complete perspective of a corporation's full interest load.

Depreciation and amortization continued to climb in 1988, totaling 104.0 percent of 1987. Additional gaming assets were the prime contributor to the depreciation increase.

Table F
Corporate Interest Expense, Depreciation and Amortization
($000 Omitted)

	Interest Expense			Depreciation and Amortization		
	1988	1987	1988 % of 1987	**1988**	1987	1988 % of 1987
Bally Manufacturing Corporation	**$178,306**	$165,660	107.6	**$137,095**	$131,234	104.5
Caesars World, Inc.	**47,823**	35,618	134.3	**43,905**	43,155	101.7
California Hotel and Casino	**31,427**	30,631	102.6	**26,435**	22,611	116.9
Circus Circus Enterprises, Inc.	**28,425**	19,733	144.0	**31,800**	29,134	109.2
Elsinore Corporation[1]	**7,030**	9,332	75.3	**4,654**	5,024	92.6
Golden Nugget, Inc.	**53,632**	23,968	223.8	**14,857**	16,946	87.7
Hilton Hotels Corporation	**48,900**	29,139	167.8	**63,600**	56,136	113.3
Holiday Corporation	**289,516**	270,309	107.1	**95,842**	113,353	84.6
Pratt Hotel Corporation	**34,464**	23,399	147.3	**17,930**	16,632	107.8
Ramada Inc.	**24,813**	18,103	137.1	**24,593**	18,377	133.8
Resorts International, Inc.	**84,321**	43,716	192.9	**23,198**	23,589	98.3
Sahara Resorts	**6,327**	11,584	54.6	**4,488**	4,360	102.9
Showboat, Inc.	**28,186**	20,025	140.8	**18,864**	6,709	281.2
Union Plaza Hotel and Casino, Inc.	**4,741**	5,011	94.6	**5,737**	5,820	98.6

[1]Excludes operations of Atlantis Hotel/Casino.

TOTAL CORPORATE ASSETS, SHAREHOLDERS' EQUITY, RETURN ON SHAREHOLDERS' EQUITY AND DEBT-TO-EQUITY RATIO

Table G provides additional yardsticks by which financial analysts can judge corporate performance.

The ratio of debt to equity and the amount of equity as a percentage of total assets frequently indicate to what extent management is depending on borrowed funds. Financial analysts generally consider a company with a high debt-to-equity ratio to be more volatile. However, there are many exceptions.

The debt-to-equity ratio is calculated by dividing the long-term debt (including current maturities) at year-end by the ending shareholders' equity. The return on shareholders' equity is computed by dividing the net income by the average shareholders' equity at the beginning and the end of the year.

For 1988, the aggregate ratio of shareholders' equity to total assets (excluding Holiday Corporation) approximated 23 percent, a decrease from 1987.

Table G
Total Corporate Assets, Shareholders' Equity, Return on Shareholders' Equity and Debt-to-Equity Ratio
($000 omitted)

	(a)	(b)	(c)	(d)	(e)
	Total Assets 1988	**Shareholders' Equity 1988**	**(b) As a Percentage of (a)**	**1988 Return on Shareholders' Equity**	**Debt to Equity Ratio**
Bally Manufacturing Corporation	$2,866,595	$581,464	20.3	5.2	2.9
Caesars World, Inc.	830,992	172,287	20.7	26.1	2.7
California Hotel and Casino	386,735	51,911	13.4	4.7	5.4
Circus Circus Enterprises, Inc.	524,112	144,912	27.6	38.6	2.0
Elsinore Corporation[1]	107,049	(2,896)	**	**	**
Golden Nugget, Inc.	1,037,726	133,842	12.9	*	5.6
Hilton Hotels Corporation[2]	1,892,500	814,100	43.0	16.5	.7
Holiday Corporation[2]	2,138,798	(679,884)	**	**	**
Pratt Hotel Corporation	345,203	(16,048)	**	**	**
Ramada Inc.[2]	705,035	295,659	41.9	*	1.0
Resorts International, Inc.	1,034,578	32,248	3.1	*	24.8
Sahara Resorts	149,565	35,181	23.5	*	2.2
Showboat, Inc.	314,988	50,699	16.1	*	4.5
Union Plaza Hotel and Casino, Inc.	68,607	21,720	31.7	7.1	1.3

*Not applicable; loss for the year.
**Not applicable; shareholders' deficiency in 1987 and for 1988.
[1] Excludes operations of Atlantis Hotel/Casino.
[2] Excluding share of debt of joint ventures or other unconsolidated operating entities.

THE CASINO GAMING INDUSTRY— AN OVERVIEW BY FINANCIAL ANALYSTS

"Atlantic City healthy; Nevada reflects continued growth."

Atlantic City revenue growth remains healthy. Caesars continues to lead the market with a good mix between live games and slot play. A major parking garage (2,000 spaces), operational by early 1990, will dramatically enhance parking capacity and should improve casino patronage and reduce costs further, as fewer comps are apt to be paid to bus patrons. Caesars will buy in its facility's underlying lease in 1989. This should further boost operating results, as current rents are based on 21 percent of the casino's pretax income. Thus, the buy-in should result in average annual savings in the $14-million pretax area.

Trump Plaza continues to perform quite well, at second place in revenues. This facility is also actively pursuing a parking advantage, building 2,000 additional spaces. Successful sporting event promotions are also delivering higher levels of table-game drop. All in all, this property's 1988 performance has been well above budget.

Trump's Castle year-over-year gains have been more modest, while cash flows remain quite steady. This facility is undertaking new marketing strategies in 1989. Thus, we look for improving results.

Bally's Park Place continues to dominate in slot winnings, with operating profits at an all-time level as well. A major room expansion (800 units) in operation by summer 1989 should enhance revenue growth by at least $40 million a year and add to cash flow. On the other hand, Bally's Grand has not fared well. We believe its 1988 performance was hurt by the TropWorld construction next door, which hampered cross traffic. Trends should slowly begin to change as Trop's construction is now completed.

Harrah's Marina continues to generate above-average operating performance, as well as profit levels, which are now at an all-time high.

In Nevada's Reno and Tahoe resorts, a combination of aggressive marketing by Harrah's, Circus-Circus, Hilton and Bally, with concentration on group/tour business has fostered a healthy growth in visitors. We also believe that slot revenues are growing more rapidly in the northern tier, given the success of IGT's Nevada Megabucks.

In Clark County, convention business has remained firm with group travel also higher at the major operators. In Laughlin, we anticipate 15 – 20 percent revenue growth during 1988 – 1989 as the market digests its 25 percent capacity increase.

Steven Eisenberg
Leisure Industry Analyst
Bear, Stearns & Co.

"Not only do U.S. investors acknowledge the Nevada market as right for expansion, so do foreign investors such as Japanese"

Nevada continues to be the biggest U.S. gaming market. While Reno and Tahoe remain seasonal markets, Las Vegas continues to dominate Nevada economically. Employing about half the workforce, the gaming and convention industries tower over the Las Vegas economy.

A driving force behind the economy's growth is the expanding population base, currently about 650,000 and projected to reach a million by the year 2000. These factors plus a strong national economy, and travel growth is causing a current boom in the Clark County market. Although still relatively small, Laughlin could soon surpass Tahoe.

Las Vegas is a destination resort and its sunbelt location and proximity to other major growing population centers enhance it. Today nearly half of Las Vegas visitors arrive by air. The majority of visitors come for a vacation and their average stay is two days, versus only a few hours at Atlantic City. Continued high occupancy levels have fueled confidence in casinos' expansion plans. Further, the city's large room base has made it a major convention center and home to a number of major trade shows.

The growth of Circus Circus will be stimulated by its new 4,000-room Excalibur, opening in mid-1990. The opening of Golden Nugget's 3,000-room Mirage, which is targeting the market's high-end, will provide competition for Caesars World.

Not only do U.S. investors acknowledge the Nevada market as right for expansion, so do foreign investors and their interest has added to market values. Most recently, Japanese investors purchased the Dunes and the Aladdin.

By comparison, Atlantic City currently has a much more limited customer base and about 10 percent of the guest rooms. The town remains a day-trip market, attracting middle class customers, most of them from the local turf of New Jersey, New York and Pennsylvania, who concentrate on the slots. Additionally, most of these visitors travel to the resort in the summer months, which makes its business seasonal.

Heavily marketed coin-giveaway programs to attract this nucleus of customers have made some casino slot operations marginally profitable.

Announced and newly initiated transportation improvements should somewhat increase the flow of visitors and could eventually ameliorate the competitive situation.

We expect the next few years in Atlantic City to be a time of transition as the shakeout continues. While some casinos, such as TropWorld, Bally and Trump's facilities, continue to expand, when the Taj Mahal opens, other casinos may fade from the picture. One casino we consider attractive is Showboat, which has been able to turn around its operations.

We have often stated that we consider the regulatory environment in Atlantic City to be extremely conservative and sometimes hostile to creative financing proposals made by several casino opera-

tors such as Bally and Holiday.

Lee S. Isgur
First Vice President
Research
PaineWebber Incorporated

"Atlantic City's growth has come close to outstripping its infrastructure."

The Atlantic City gaming industry's tremendous growth rate has raised investor concerns about its future. The high growth has come close to outstripping Atlantic City's existing infrastructure while prompting the construction of new casino space, which is expected to add over 22 percent to existing capacity from late 1988 to mid-1990. Atlantic City is suffering from shortages in casino hotel rooms and lack of both adequate transportation to the city and up-to-date convention facilities.

In the past, Atlantic City has concentrated on attracting lower-margin gamblers who stay less than one day and arrive by bus. Air transportation has been an insignificant factor: From 1984 to 1987, air traffic comprised only 1 percent of total visitors.

In comparison, Las Vegas draws more than 40 percent of its visitors by air and the average stay per visit is approximately four days. As a result, although Atlantic City posted 92 percent more patron visits, Las Vegas recorded equal gaming revenues. Atlantic City bus trippers spend an average of $35 – $45, depending on the casino; in general, ground transportation visitors tend to stay an average of six hours and spend less than $100. By contrast, those few guests who arrive by air may spend several hundreds of dollars.

Clearly the solution to Atlantic City's potential difficulties is to develop the city into more of a destination resort. The city is currently working toward achieving this goal through major infrastructure improvements, including new airport facilities, additional casino hotel rooms, widened expressways and the initiation of rail service to Philadelphia and New York City.

The anticipated construction of at least 3,171 more casino hotel rooms between mid-1988 and mid-1991 should be of great benefit. The past shortage of rooms has limited the growth of the Atlantic City market. During holidays and weekends, as well as many weekdays throughout the summer months, room occupancies rise close to 100 percent. Potential players have been discouraged from making the trip because they cannot find lodging.

While all Atlantic City should benefit from the new rooms, those hotel/casinos which add them should benefit most. Atlantic City's first mega-facility, TropWorld, has ranked number one in gaming win for each of the high-demand nights it has been open, Memorial Day, President's Day, New Year's Eve. We expect that this summer both TropWorld and Bally's Park Place, which is in the process of opening 800 additional rooms, should dominate the Atlantic City market.

Laurence A. Klatzkin
Vice President
Salomon Brothers Inc.

"1989 is the lull before the storm"

Relatively little casino capacity opens this year, either in Atlantic City or Nevada. The economy remains strong. Both visitor counts and casino revenues should continue to rise in virtually all markets, leading to record profitability.

The storm comes in 1990. Golden Nugget's Mirage opens in Las Vegas in December 1989 followed by the Atlantic City Taj Mahal in early spring 1990, then Circus Circus's Excalibur opens in Las Vegas in June. All three are huge. There are also numerous expansions opening in both markets.

The 1990 economy is also less certain. The 1980s economic expansion is already by far the largest in post-World War II history. High factory utilization and low unemployment suggest future increases in inflation and interest rates, quite possibly leading to a recession in 1990 or 1991.

Contrary to myth, casino activity does slow somewhat during recessions.

The industry hurdle is to develop the demand during 1989 and 1990 to fill the new supply. In Atlantic City this means attracting more air service, improving the convention facilities and perhaps expanding the city-wide marketing efforts. In Las Vegas it means building the anticipation and excitement levels in its numerous distant markets. Both cities have traffic congestion problems that should be addressed.

Among individual operators, this should be the year of preparing for fierce competition. Historically, when new capacity has been added, facilities that have not been well maintained or have no competitive edge have shown big declines in occupancies and gaming revenues. In other words, properties that have not seen reinvestment will fall a tier in relative quality and profitability.

This may also be the year that we see the emergence of a meaningful third jurisdiction. Casinos were recently legalized on excursion boats in Iowa, effective in 1991, but the law contains so many restrictions and taxes that we doubt such facilities could be operated profitably. However, this has spurred less restrictive gaming legalization efforts elsewhere in the Midwest.

Daniel R. Lee
First Vice President
Drexel Burnham Lambert

"Casino gaming in Atlantic City: A crisis ahead"

Five years ago Atlantic City had nine casinos which generated a casino win of $1.77 billion and profits of $168.7 million. Last year the city's twelve casinos won $2.73 billion from its bettors and reported profits of only $14.7 million. There were several nonrecurring write-offs included in last year's numbers, but even looking back to 1987's profits of $73.9 million the results are still poor. For example, 1987's bottom line is equivalent to less than three cents profit for each dollar of revenues and about two cents return for each dollar of invested capital.

Atlantic City casinos' balance sheets are so leveraged that for every one dollar in equity there is six dollars in debt. Most of this casino debt is rated in the "junk" category which means that it is speculative whether the borrower has the capacity to pay interest or repay principal in accordance with the terms of the obligations.

Compared with their cousins in Nevada, Atlantic City casinos pay a hefty price to keep their doors open. The state's two regulatory authorities, the New Jersey Casino Control Commission and the Division of Gaming Enforcement, currently police and regulate the 11 locations with a staff of 1,080 and a budget of $59 million. New Jersey's casinos foot the bill for regulatory expenses in assessments and licensing fees in addition to an 8 percent levy on casino revenues and a 9 percent corporate income tax. Nevada's casinos have a much friendlier environment, they pay a maximum tax of 6.25 percent on casino revenues, but there is no corporate income tax. Nevada's two regulatory agencies operate with 372 employees on a budget of $15.7 million to police 285 gaming locations.

In Atlantic City, all of the casinos offer the same games, but there is a great difference in the way these properties are managed. What is critical to remember is that the bottom line is all important, especially in an environment of debt heavy balance sheets. In the past, many of the operators have ignored the net income line and pointed with pride to their high operating profits. A few operators even felt that as long as cash flows were sufficient to cover debt service, they were home free. We are raising the red flags. Today's debt loads are in excess of $2 billion, and they will soon be $3 billion. Interest expenses of $293 million last year will jump to $400 million in 1990. At some casinos there is no longer any leeway for a slowdown or a decline in revenues. Big capacity additions, coupled with a slowing economy, could put a few operators over the edge.

Marvin B. Roffman
Vice President
Janney Montgomery Scott, Inc.

NEVADA SUMMARY

The Nevada casino gaming industry passed new milestones in the fiscal year ended June 30, 1988. Both total casino revenues of $4.1 billion and pretax income of $689 million set new records.

Casino revenue increased 11.6 percent over fiscal 1987, and the pretax profits represented a 6.3 percent rise compared with the previous year's turnaround surge of 32.9 percent.

In another light, the 1988 pretax income represented a 10.3 percent profit margin on total revenues, and was only a hair's-breadth decrease from the 1987 margin of 10.7 percent.

The state's 1988 statistics embraced 166 "Group 1" casinos (those in the $1 million-plus-revenue category) 11 more than the 155 listed in 1987.

Of the 11 new operations, five were additions to the "Balance of the State" sector, which includes Carson City in the west, Ely in the east, and Tonapah in the middle south (adjoining McNellis Air Force base).

Coin Games Rise Again

Of major significance statewide and throughout its various regions was the continued growth of coin-operated games versus table games (highlighted in the Introduction).

Coin game revenues rose to 56.8 percent, a 1.4 percentage point increase over fiscal 1987. This growth has been consistent each year since 1983.

Only on the Las Vegas Strip and in South Lake Tahoe do table games bring in a higher percentage of dollars than coin machines. For the remainder of the state, slot play ranged from 61 percent to 79 percent of total casino revenue.

Clark County Holds the Spotlight

As always, there were sharp regional and property differences in casino performances, with Clark County and Las Vegas holding the spotlight.

Clark County's 77 casinos, totaling $2.7 billion in gaming revenues, accounted for 66 percent of the state's total. Even more significantly, with $544 million in pretax income, they accounted for 79 percent of that statewide figure, approximately the same as the previous year.

Contributing strongly to the overall growth of Clark County business in 1988 was the fact that its various submarkets provide a wide variety of choices to the gaming and leisure time public.

Las Vegas: With its large number of hotel rooms and extensive convention space, Las Vegas is today the third largest convention market in the U.S. In 1988 it played host to over 1.7 million convention delegates in contrast to only 350,000 in 1975 and 600,000 ten years ago.

Other evidence of Clark County's progress is provided by McCarran International Airport statistics: In 1975, the airport recorded 6.5 million arrivals and departures. By 1988, this figure had more than doubled to 15 million. By the year 2000, authorities forecast that arrivals and departures will reach 32 million.

Hotel room growth: At the end of calendar 1988, Las Vegas had slightly over 61,000 hotel/motel rooms. Of this total, nearly 45,000 were in hotels which, for the year, enjoyed an average occupancy of 89 percent, the highest of any locality in the U.S., with an average stay of four days.

By the end of 1991, the number of hotel/motel rooms in Las Vegas is expected to increase to 83,000. Of these, the inventory of hotel rooms alone will rise by 45 percent to an estimated 64,000.

Two mega resort casinos now under construction will provide over 7,000 of these rooms. The Mirage, Golden Nugget's new 3,056-room facility, is scheduled to open in December 1989; Circus Circus' 4,000-room castle fantasy, Excalibur, is set to open in June 1990.

These are the first major hotel/casinos to be constructed in Las Vegas since 1974.

It is probable that the sudden flow of new rooms into the market will adversely affect profits of some casinos. However, over the long term, with the excitement generated by these two properties and the other changes taking place, we believe that Las Vegas will emerge as an even more powerful magnet for tourism; it offers one of the best resort values in the world, with its inexpensive accommodations and its reasonably priced food and entertainment facilities.

The Las Vegas Strip: In fiscal 1988, The Strip (with its 40 casinos) accounted for 42.5 percent of the state's total casino revenues and 54.7 percent of the operating profits. However, one key number blemished The Strip's otherwise glittering performance in fiscal 1988: Although total revenue of $3 billion rose 8.2 percent, pretax profit declined 7.1 percent. Even so, this was the second-best annual earnings performance ever for The Strip.

In general, the pretax profit decline was attributed to increased costs of doing business, including higher expenditures for marketing and promotion, as the major casinos strived to solidify their market positions against the increased capacity that is coming on stream. In this process, casino department income as a percentage of total income declined to 48.2 percent in 1989 compared with 49.8 percent the previous year.

Downtown Las Vegas: This segment has undergone a radical transformation over the last few years, during which its operations have upscaled their images as well as their patrons.

As a result, in fiscal 1988 the downtown area showed evidence of emerging from the lackluster pattern of recent years. The 22 downtown operations posted an increase of 13.9 percent in gaming revenues and 15.5 percent in total revenues. But more importantly, pretax income more than doubled; it was up 115 percent. However, the dollar amount still did not match the downtown pretax earnings performance that prevailed at the beginning of this decade.

With profit margins lower than for any other Clark County submarket (8.6 percent), downtown operators still have an opportunity to post greater income gains in the years ahead.

Laughlin: Growth was still the hallmark in fiscal 1988 although the pace slowed somewhat. The town's seven casinos produced the highest profit margin of any Nevada gaming region—18.4 percent on total revenues of $378 million, which in turn were up by 31.8 percent over 1987.

By the end of this year, Laughlin will be the third largest gaming sector in Nevada, surpassing South Lake Tahoe.

The story of this town's surge is phenomenal by any standards: At the beginning of the 1980s it offered less than 400 hotel rooms. By the end of calendar 1988 it had some 4,000 rooms, and by the end of 1991 the total is expected to reach 13,000.

Inevitably, with the opening of more major facilities, the complexion of the town's business will continue to change. As new rooms and casino space come on stream, and its base is expanded, the rate of revenue and profit increases will continue to slow. Infrastructure challenges will have to be met.

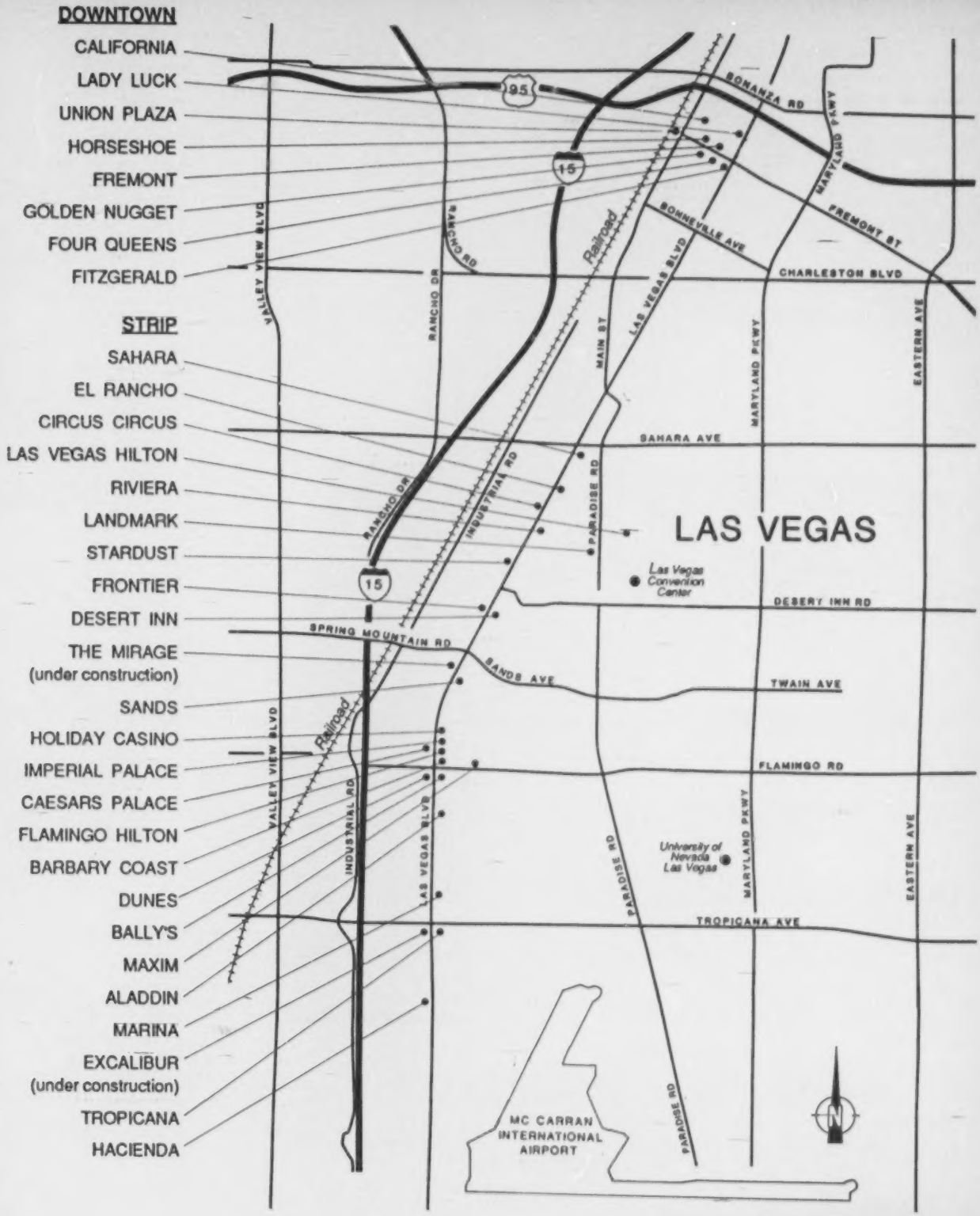
Northern Resorts: A Mixed Bag

With all the optimism and good news emanating from the southern desert regions, it would be pleasant to report similar gains from the northern resorts, but unfortunately there were only a few pluses to highlight in 1988.

The six casino/hotels in the South Lake Tahoe/Douglas County area (the same number as last year) posted a gain of 64.6 percent in pretax income on an increase of 11.4 percent in gaming revenues. However, the total pretax income of $22.3 million represents a profit margin of 4.3 percent, one of the lowest of any region in the state.

The 32 casinos in the Washoe County belt (no change from last year), which includes Reno and Sparks, showed a gain of 8.1 percent in casino revenues and 9.5 percent in operating income, continuing the upward trend that began in 1986, and bringing the area close to its peak profit year of 1984. In 1988, Sparks invested some $20 million in a downtown redevelopment, which includes a block-long, Victorian-style open air mall. The town's hopes are running high but it's still too early to tell whether the change will bring in enough tourists to make the whole effort pay off.

The 39 casinos included in the "balance of the state," posted a total revenue increase of 18.8 percent and a rise in gaming revenues of 21.5 percent, 75.9 percent of it coming from slot machines (up from 73.5 percent in fiscal year 1987). However, these gains were not brought down to the bottom line because of increased operating expenses.



LAS VEGAS
Downtown and Strip
Major Hotel/Casino Properties

Source: Laventhol & Horwath

Table H
Nevada Operating Results
Licensees Grossing $1 Million or More in Gaming Revenue
Year Ended June 30, 1988
($000 omitted except for gaming revenue per square foot)

	Statewide		Clark County Strip		Clark County Downtown		Clark County Boulder Highway	
Number of Locations	166		40		22		8	
	$	%	$	%	$	%	$	%
Condensed Income Summary:								
Revenue:								
Casino	$4,094,870	61.0	$1,739,265	57.3	$592,616	66.1	$104,161	67.4
Hotel and Other	2,618,539	39.0	1,295,497	42.7	304,412	33.9	50,417	32.6
Total	6,713,409	100.0	3,034,762	100.0	897,028	100.0	154,578	100.0
Costs and Expenses (Net):								
Total Exclusive of Items Shown Below	5,396,085	80.3	2,398,584	79.0	710,370	79.2	117,331	75.9
Interest	266,545	4.0	111,178	3.7	53,454	5.9	7,459	4.8
Depreciation and Amortization	361,561	5.4	147,549	4.9	56,429	6.3	9,397	6.1
Total	6,024,191	89.7	2,657,311	87.6	820,253	91.4	134,187	86.8
Income (Loss) Before Federal Income Tax and Extraordinary Items	$ 689,218	10.3	$ 377,451	12.4	$ 76,775	8.6	$ 20,391	13.2
Supplementary Casino Information:								
Casino Revenue:								
Pit	$1,606,945	39.2	$ 859,459	49.4	$208,038	35.1	$ 18,562	17.8
Coin-operated Machines	2,325,721	56.8	790,666	45.5	359,334	60.6	82,542	79.3
Other	162,204	4.0	89,140	5.1	25,244	4.3	3,057	2.9
Total	4,094,870	100.0	1,739,265	100.0	592,616	100.0	104,161	100.0
Costs and Expenses:								
Labor	865,657	21.1	384,655	22.1	129,359	21.8	20,212	19.4
Other	1,060,685	25.9	516,106	29.7	136,028	23.0	19,292	18.5
Total	1,926,342	47.0	900,761	51.8	265,387	44.8	39,504	37.9
Casino Department Income	$2,168,528	53.0	$ 838,504	48.2	$327,229	55.2	$ 64,657	62.1
Revenue Information per Location:								
Average Revenue	$ 40,442		$ 75,869		$ 40,774		$ 19,322	
Upper Quartile	56,992		112,162		59,907		16,262	
Median	15,810		46,482		32,082		11,112	
Lower Quartile	5,591		9,851		8,956		7,785	
Gaming Revenue per Square Foot:								
Pit	1,627		2,593		1,386		372	
Coin-operated Machines	1,064		1,150		1,106		878	
Total Casino	1,177		1,486		1,147		674	

Clark County Laughlin		Douglas County South Lake Tahoe		Elko County		Washoe County Reno/Sparks		Balance of State	
7		6		12		32		39	
$	%	$	%	$	%	$	%	$	%
$268,791	71.0	$332,512	64.3	$ 92,825	59.9	$ 660,906	60.5	$303,794	62.7
109,546	29.0	184,562	35.7	62,062	40.1	431,565	39.5	180,478	37.3
378,337	100.0	517,074	100.0	154,887	100.0	1,092,471	100.0	484,272	100.0
272,385	72.0	448,014	86.7	131,543	84.9	931,113	85.2	386,745	79.9
16,292	4.3	19,747	3.8	8,366	5.4	27,727	2.5	22,322	4.6
19,863	5.3	26,983	5.2	9,930	6.4	65,150	6.0	26,260	5.4
308,540	81.6	494,744	95.7	149,839	96.7	1,023,990	93.7	435,327	89.9
$ 69,797	18.4	$ 22,330	4.3	$ 5,048	3.3	$ 68,481	6.3	$ 48,945	10.1
$ 32,332	19.5	$163,291	49.1	$ 29,513	31.8	$ 210,913	31.9	$ 64,837	21.4
209,180	77.8	160,398	48.2	61,773	66.5	431,123	65.2	230,705	75.9
7,279	2.7	8,823	2.7	1,539	1.7	18,870	2.9	8,252	2.7
268,791	100.0	332,512	100.0	92,825	100.0	660,906	100.0	303,794	100.0
38,282	14.2	74,050	22.3	17,508	18.9	146,798	22.2	54,793	18.0
49,339	18.4	113,737	34.2	19,323	20.8	148,475	22.5	58,385	19.2
87,621	32.6	187,787	56.5	36,831	39.7	295,273	44.7	113,178	37.2
$181,170	67.4	$144,725	43.5	$ 55,994	60.3	$ 365,633	55.3	$190,616	62.8
$ 54,048		$ 86,179		$ 12,907		$ 34,140		$ 12,417	
76,760		123,015		19,590		48,496		12,565	
35,172		90,459		10,374		15,261		5,591	
34,219		13,875		6,256		7,404		3,090	
1,210		2,206		673		1,155		575	
1,318		913		848		1,014		930	
1,253		1,223		767		1,014		800	

LAUGHLIN CASINO HOTELS

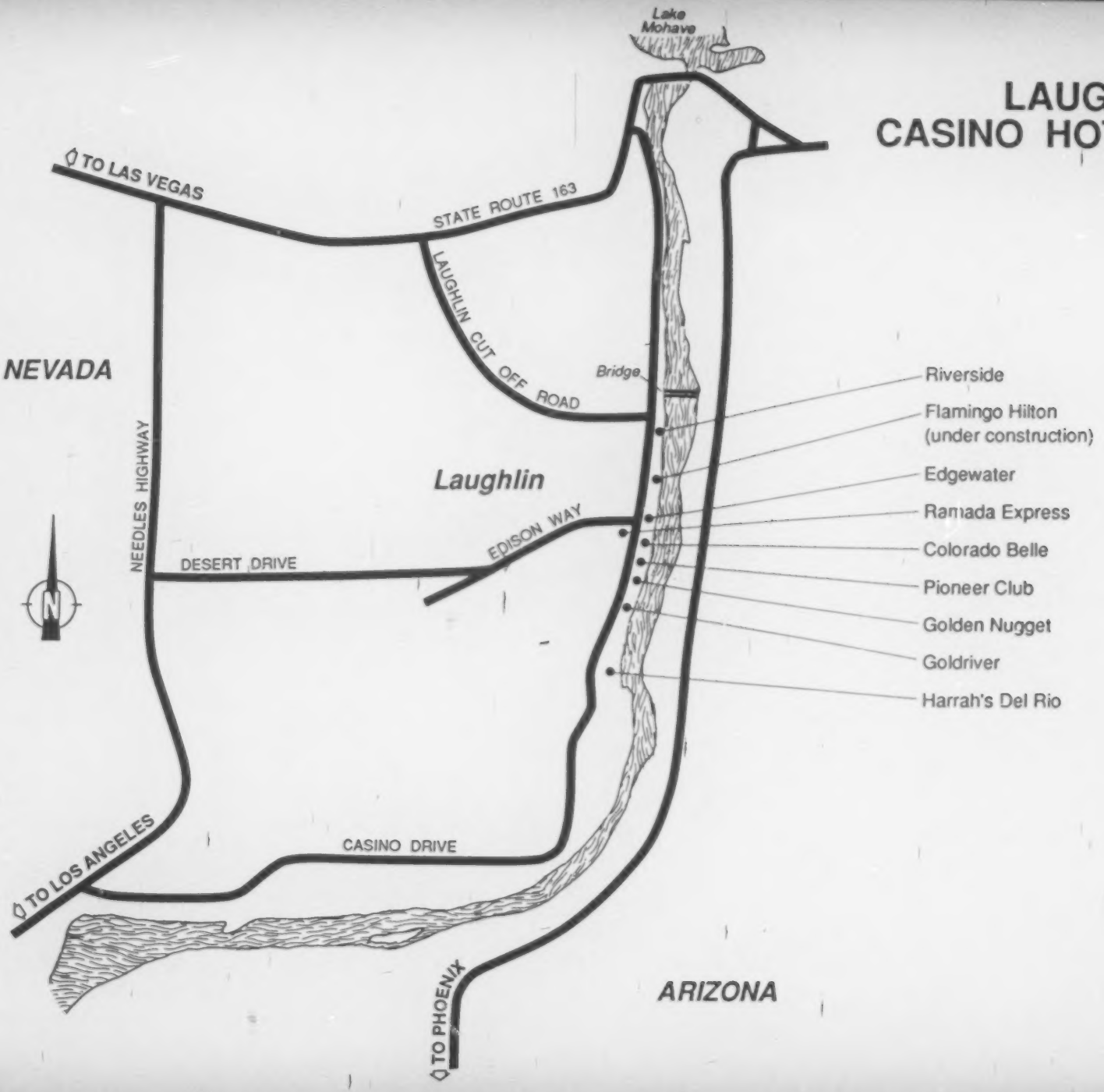
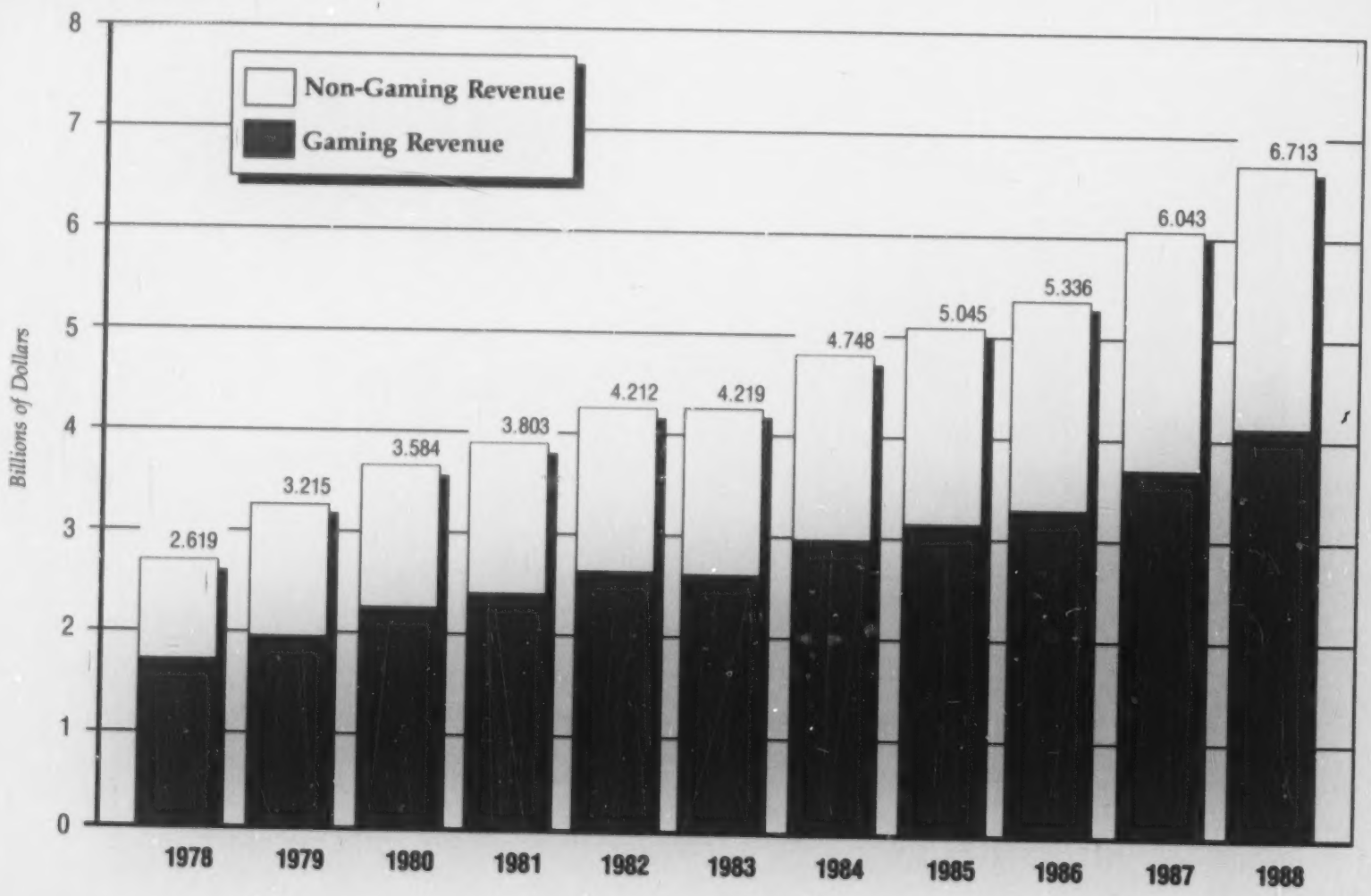


Chart J

Current Dollar Total Gross Revenues For Nevada's Group I Casinos
Fiscal Year 1978 — Fiscal Year 1988

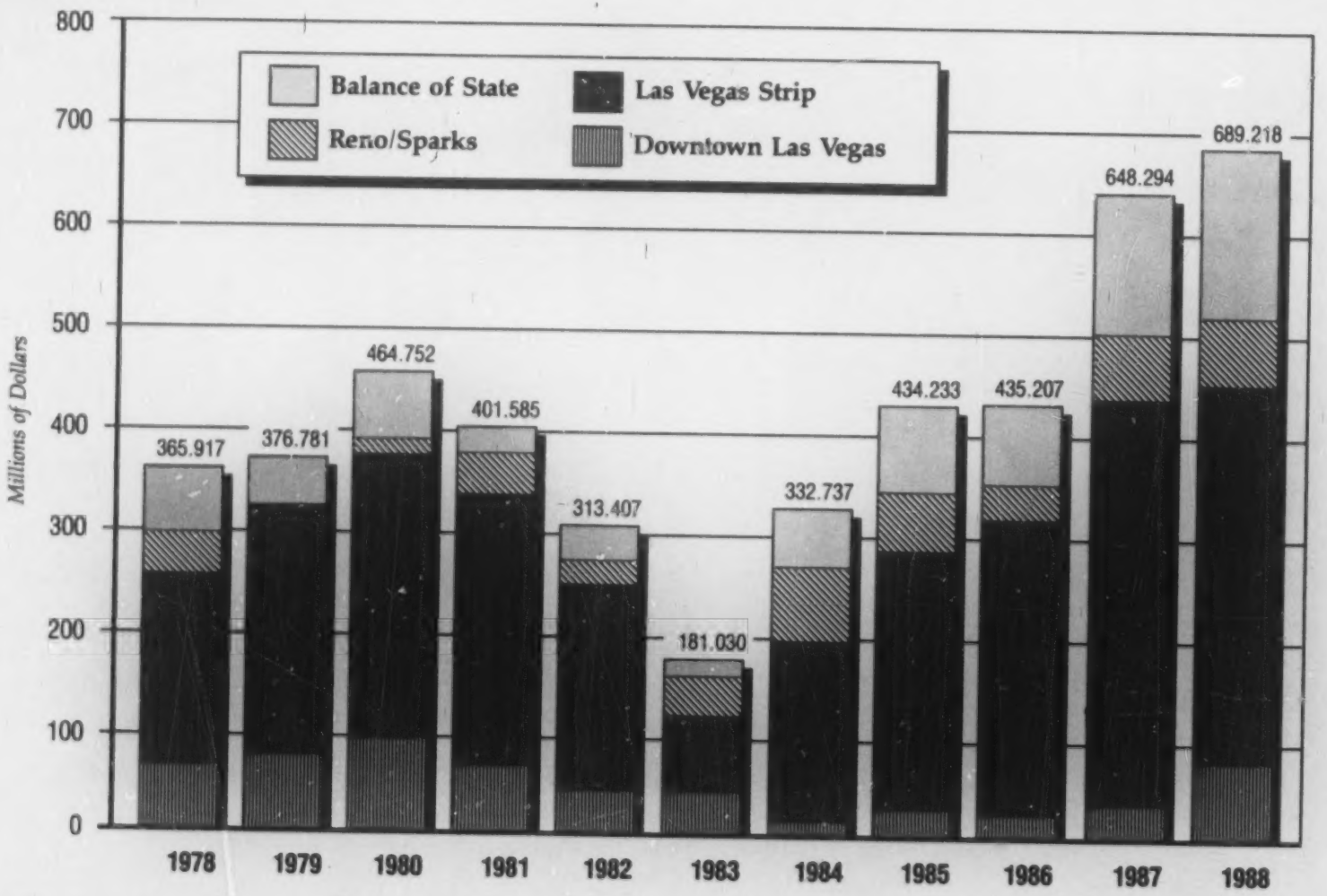


Source: State of Nevada, Gaming Control Board.

Laventhol & Horwath
Leisure Time Industries Department

Chart K

Current Dollar Pretax Profits by Major Market Area — Group I Casinos
Fiscal Year 1978 — Fiscal Year 1988



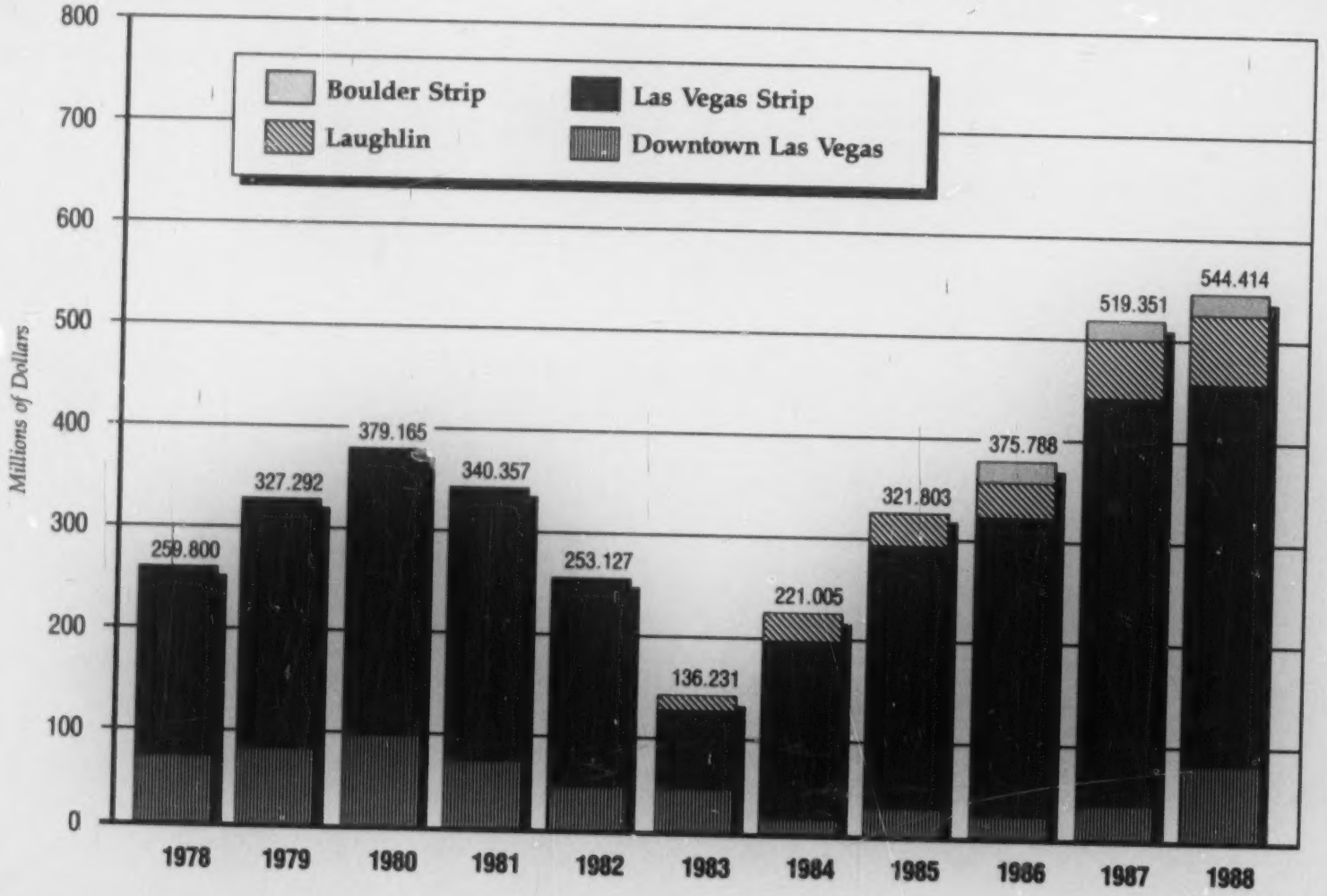
Footnote: In fiscal 1979 Reno/Sparks showed a net loss.

Source: State of Nevada, Gaming Control Board.

Laventhol & Horwath
Leisure Time Industries Department

Chart L

Current Dollar Pretax Profits by Major Clark County Market — Group I Casinos
Fiscal Year 1978 — Fiscal Year 1988



Note: Laughlin and Boulder Strip were not listed separately before the years in which they appear.

Source: State of Nevada, Gaming Control Board.

Laventhol & Horwath
Leisure Time Industries Department

ATLANTIC CITY SUMMARY

For Atlantic City, calendar year 1988 was another year in which weak operations remained so and the strong facilities continued to show their strength. As in 1987, 1988 was also a year marked by takeover challenges; sales and acquisitions involving changes in management; and mounting construction costs.

Casino revenue of $2.73 billion was 9.4 percent greater than in 1987. Although a few operations posted outstanding results, the overall outcome was disappointing, due largely to nonoperating charges by two operations approximating $84 million. One was the $42 million Atlantis write-down of its facility; the other consisted of nonrecurring charges by Resorts approximating another $42 million.

Without these two charges, net income would have exceeded $100 million rather than the $26 million posted. Cash flow would have been commensurately higher, reaching over $600 million compared with the $518 million indicated.

1988 was also a year in which the major operators spent heavily on marketing, positioning themselves against the debut of the Taj Mahal. Evidence of this was the promotional allowance increase to 11.8 percent of total revenue, from 11.2 percent in 1987 and 10.8 percent in 1986.

Another factor that has continued (and will continue) to impact the total bottom line is the highly leveraged, capital-intensive nature of the industry. Currently, it supports a debt burden which in 1988 required interest payments totaling $265.5 million. This amounted to a $14 million increase over 1987, although interest as a percentage of total revenue declined to 8.6 from 8.9 percent. (Individual operations shoulder interest loads ranging from less than 1 percent of total revenues to a high of 16.6 percent, with a median of 10 percent.)

Changing Nature of the Business

There is little doubt that the nature of Atlantic City's business will continue to change. Heretofore, the number of hotel rooms was not critical to success. From now on, to be competitive, a facility will require a greater number of guest rooms. The future belongs to major operators who are working to establish more of an overall resort atmosphere in order to appeal to more visitors from afar.

Operators now concede there is virtually no growth left in the bus-passenger business, which comes mostly from a 150-mile marketing radius. With their new parking facilities, the industry is now targeting customers who arrive in their own autos, a more affluent group.

On the plus side, Atlantic City, like Las Vegas, is witnessing a revenue growth from coin-operated machines. In 1988, slots revenue climbed to 55 percent of casino revenue from 53.2 percent, a continuation of the long-term trend.

Looking Ahead

For 1989, at least some infrastructure improvements will be on stream: early in the year, the city had Amtrak service for the first time, with trains from Philadelphia and New York; air transportation growth is encouraging with the startup of U.S. Air service into the Pomona International Airport.

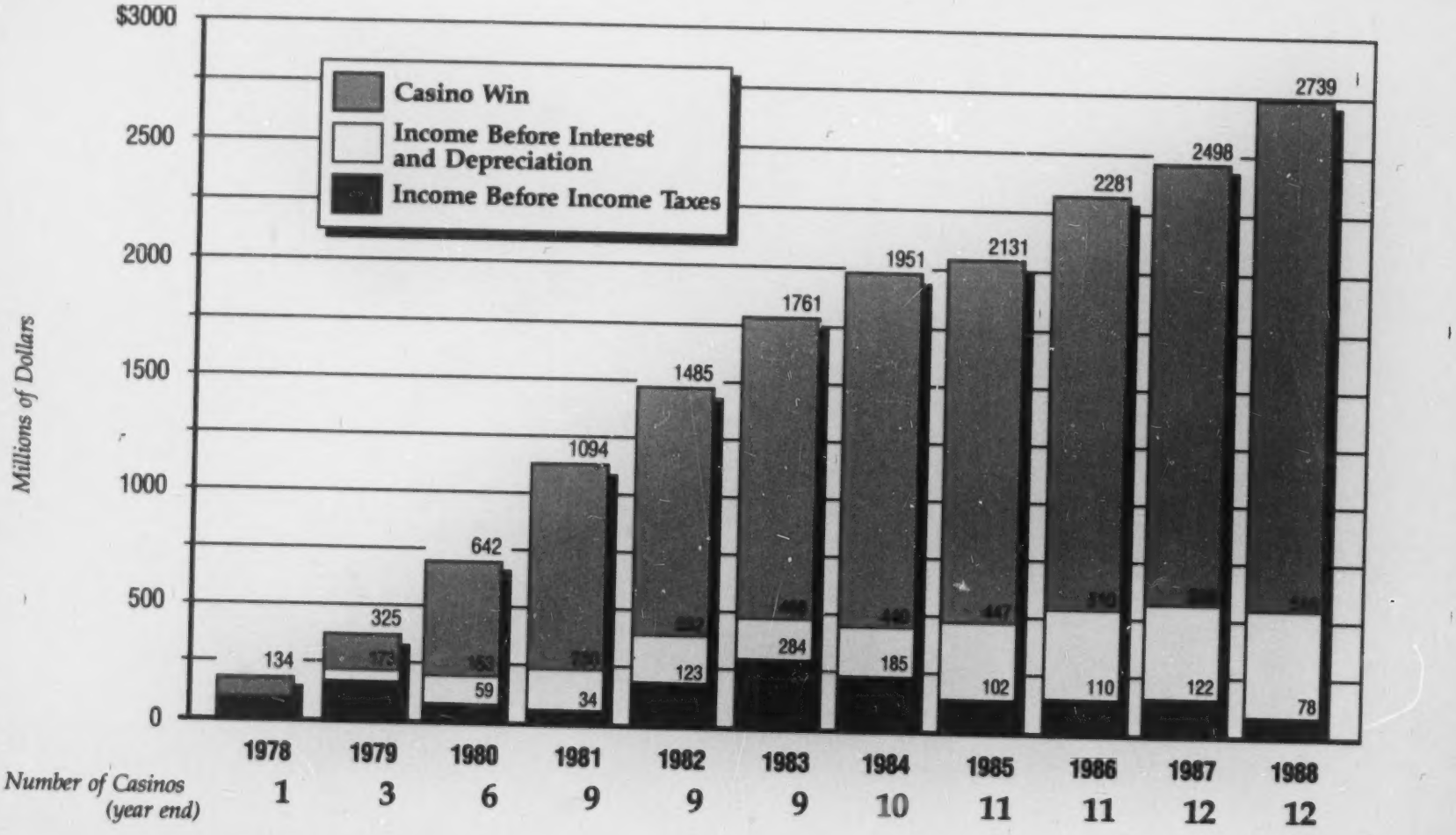
Should the proposed convention center be built, it will attract many more regional and national conventions to the city. As the number of hotel rooms continues to advance, and as the air terminal facilities are expanded, increased arrivals by air can be anticipated.

With the current number of casinos reduced from 12 to 11 (with the closing of the Atlantis in May 1989), the current year's increase in gaming revenue will probably be in the 7 percent range. On the other hand, there should be a modest increase in cash flow for the year.

As competition intensifies, there will also be a growth in off-season special events, which have proved to be profitable. While some concern is still being voiced over the opening of the Taj Mahal, the stimulation this facility will produce will lead to the next plateau in Atlantic City's growth, permitting a fuller development of its potential.

Chart M

Atlantic City Operating Results



*85 = taxes
88 = depreciation & interest

Source: Laventhol & Horwath.

Laventhol & Horwath
Leisure Time Industries Department

Table N
Atlantic City Operating Results
($000 omitted)

	Total		Atlantis		Bally's Grand		Bally's Park Place	
Date Opened			Apr 1981		Dec 1980		Dec 1979	
	$	%	$	%	$	%	$	%
Condensed Income Summary:								
Revenue:								
Casino	$2,734,383	88.7	$ 83,992	84.6	$223,317	90.4	$268,961	89.2
Hotel and Other	711,033	23.1	26,609	26.8	55,637	22.5	59,235	19.6
Promotional Allowances	(364,100)	(11.8)	(11,303)	(11.4)	(31,893)	(12.9)	(26,553)	(8.8)
Total	3,081,316	100.0	99,298	100.0	247,061	100.0	301,643	100.0
Costs and Expenses (Net):								
Total Exclusive of Items Shown Below	2,516,083	81.6	96,511	97.2	194,203	78.6	208,078	69.0
Interest	265,486	8.6	16,205	16.3	37,596	15.2	8,034	2.7
Depreciation and Amortization	174,443	5.7	7,690	7.7	17,423	7.0	21,539	7.1
Management Fees	23,673	.8	150	.2				
Nonoperating Expenses (Income)	23,823	.8	43,802	44.1	(2,326)	(.9)	(1,235)	(.4)
Income Taxes	51,657	1.7			1,184	.5	26,785	8.9
Total	3,055,165	99.2	164,358	165.5	248,080	100.4	263,201	87.3
Net Income (Loss)	$ 26,151	.8	($ 65,060)	(65.5)	($ 1,019)	(.4)	$ 38,442	12.7
Supplementary Casino Information:								
Casino Square Footage	697,000		50,500		45,500		60,000	
Casino Revenue:								
Table Games	$1,241,200	45.4	$ 29,952	35.7	$108,628	48.6	$110,307	41.0
Coin-operated Machines	1,493,183	54.6	54,040	64.3	114,689	51.4	158,654	59.0
Total	$2,734,383	100.0	$ 83,992	100.0	$223,317	100.0	$268,961	100.0
Approximate Average Monthly Casino Revenue per Square Foot	$337.00		$138.00		$418.00		$373.00	

[1]Operates as a partnership; no federal income tax provision.

Caesars Atlantic City		Claridge		Harrah's Marina		Resorts International		Sands	
July 1979		July 1981		Nov 1981		May 1978		Aug 1980	
$	%	$	%	$	%	$	%	$	%
$308,001	90.5	$133,497	87.5	$280,358	89.3	$243,440	88.8	$205,667	90.8
69,929	20.6	40,526	26.6	77,050	24.5	66,674	24.3	43,689	19.3
(37,812)	(11.1)	(21,487)	(14.1)	(43,344)	(13.8)	(35,933)	(13.1)	(22,931)	(10.1)
340,118	100.0	152,536	100.0	314,064	100.0	274,181	100.0	226,425	100.0
256,590	75.4	171,001	112.1	222,632	70.9	230,632	84.1	175,105	77.3
12,119	3.6	19,873	13.0	2		45,551	16.6	22,727	10.0
18,229	5.4	3,964	2.6	13,146	4.2	12,041	4.4	16,051	7.1
						3,600	1.3	5,998	2.7
2,057	.6	(21,902)	(14.3)	(1,718)	(.6)	31,095	11.4	(1,575)	(.7)
21,423	6.3			7,185	2.3	(1,600)	(.6)	1,680	.8
310,418	91.3	172,936	113.4	241,247	76.8	321,319	117.2	219,986	97.2
$ 29,700	8.7	($ 20,400)	(13.4)	$ 72,817[1]	23.2	($ 47,138)	(17.2)	$ 6,439	2.8
60,000		43,000		60,000		60,000		50,000	
$164,954	53.5	$ 55,142	41.3	$113,262	40.4	$111,454	45.8	$ 97,670	47.5
143,047	46.5	78,355	58.7	167,096	59.6	131,986	54.2	107,997	52.5
$308,001	100.0	$133,497	100.0	$280,358	100.0	$243,440	100.0	$205,667	100.0
$429.00		$258.00		$389.00		$338.00		$343.00	

(continued on next page)

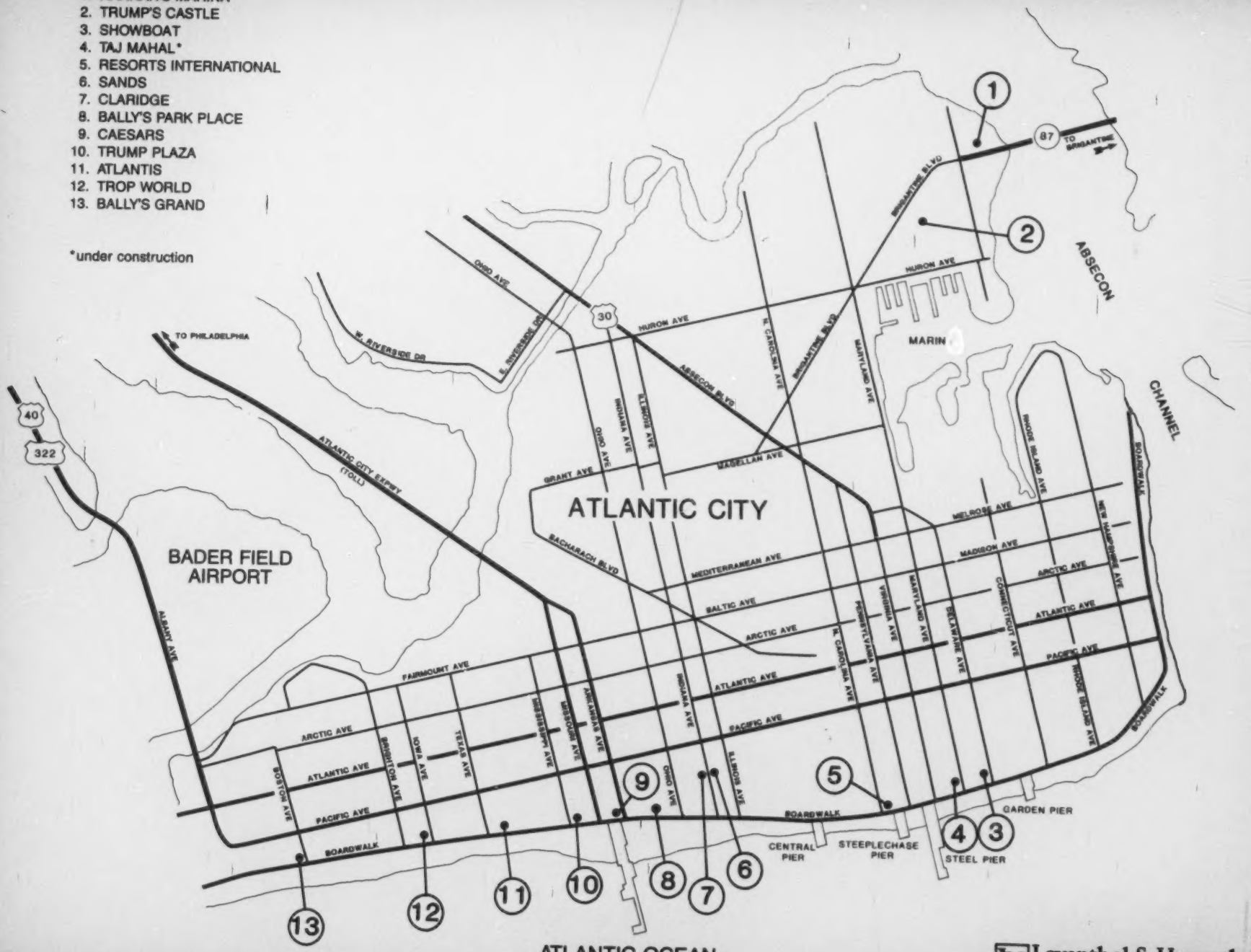
Table N *(continued)*
Atlantic City Operating Results
($000 omitted)

	Showboat		TropWorld		Trump Plaza		Trump's Castle	
Date Opened	March 1987		Nov 1981		May 1984		June 1985	
	$	%	$	%	$	%	$	%
Condensed Income Summary:								
Revenue:								
Casino	$207,912	85.8	$231,032	89.8	$300,184	86.3	$248,022	89.1
Hotel and Other	64,019	26.4	51,202	19.9	88,384	25.4	68,079	24.4
Promotional Allowances	(29,516)	(12.2)	(24,858)	(9.7)	(40,851)	(11.7)	(37,619)	(13.5)
Total	242,415	100.0	257,376	100.0	347,717	100.0	278,482	100.0
Costs and Expenses (Net):								
Total Exclusive of Items Shown Below	214,295	88.4	260,904	101.4	263,350	75.7	222,782	80.0
Interest	23,256	9.6	3,560	1.4	34,726	10.0	41,837	15.0
Depreciation and Amortization	15,715	6.5	14,326	5.5	14,346	4.1	19,973	7.2
Management Fees	13,442	5.5	483	.2				
Nonoperating Expenses (Income)	(1,680)	(.7)	(18,489)	(7.2)	(1,558)	(.4)	(2,648)	(1.0)
Income Taxes	(7,071)	(2.9)	(1,276)	(.5)	3,691	1.1	(344)	(.1)
Total	257,957	106.4	259,508	100.8	314,555	90.5	281,600	101.1
Net Income (Loss)	($ 15,542)	(6.4)	($ 2,132)	(.8)	$ 33,162[2]	9.5	($ 3,118)[2]	(1.1)
Supplementary Casino Information:								
Casino Square Footage	60,000		88,000		60,000		60,000	
Casino Revenue:								
Table Games	$ 92,843	44.6	$ 93,035	40.3	$146,911	48.9	$117,042	47.2
Coin-operated Machines	115,069	55.4	137,997	59.7	153,273	51.1	130,980	52.8
Total	$207,912	100.0	$231,032	100.0	$300,184	100.0	248,022	100.0
Approximate Average Monthly Casino Revenue per Square Foot	$288.00		$279.00		$417.00		$344.00	

[2]Operates as a partnership; no federal income tax provision.

1. HARRAH'S MARINA
2. TRUMP'S CASTLE
3. SHOWBOAT
4. TAJ MAHAL*
5. RESORTS INTERNATIONAL
6. SANDS
7. CLARIDGE
8. BALLY'S PARK PLACE
9. CAESARS
10. TRUMP PLAZA
11. ATLANTIS
12. TROP WORLD
13. BALLY'S GRAND

*under construction



Laventhol & Horwath
Leisure Time Industries Department

PUERTO RICO SUMMARY

Even though 1987 was a very good year for Puerto Rico's expanding tourism industry, 1988 was even better.

The government of Puerto Rico has acknowledged the importance of tourism for the island's economy and has increased promotional and investment programs to stimulate its growth. During 1988, tourism contributed just over $1.1 billion to the Commonwealth's economy, a 23 percent increase over 1987.

Tourism and Casino Increases

Overnight visitors were up 21 percent to 2.3 million; cruise ship passengers increased 25 percent to 728,000; and hotel registrations were up 13 percent. Hotel occupancy averaged 78 percent for the year, a new record.

Casinos benefited from all this activity by posting an increase of 28 percent in wins. One difference from stateside casino operations, however, is that the government owns all slot machines, with 30 percent of the handle going to the operators. As a result, Puerto Rico casinos are already heavily taxed by continental U.S. standards. The casino industry is in agreement with the need to further improve the island's infrastructure and its leaders are at present working with the government to help provide the funds without adding onerous taxes. However, at present there is an attempt to add a tax on casino table win.

During 1988 there were several expansions of existing casinos, including the Condado Plaza Hotel & Casino, the El San Juan Hotel & Casino, and Palmas del Mar Resort & Casino (all owned by Williams Hospitality Management) and the Mayaguez Hilton Hotel & Casino (operated by Hilton International). In the renovation process, a number of safety changes were incorporated as a result of new, tough Puerto Rico fire codes.

Projects Ahead

In 1989, there are proposed casino expansions to the Mayaguez Hilton and the Palmas del Mar; they are in addition to expansions completed in 1988.

Projections for 1990 include the reopening, after complete renovation, of the Dupont Plaza Hotel & Casino and the Isla Verde Resort & Casino (formerly Holiday Inn Isla Verde).

Looking forward to 1991, projections call for the complete renovation and reopening of the Conquistador Resort & Casino and the Dorado del Mar Resort & Casino (formerly the Dorado Hilton). The renewed Conquistador is planned to be the first mega resort in Puerto Rico, with over 1,000 rooms, condominiums, a spa, two 18-hole golf courses and a private island.

Infrastructure Improvements

Puerto Rico's Luis Munoz Marin International Airport is now the hub for air transportation to the entire Caribbean. Major air carriers have spent or committed some $100 million to terminal improvements, and American Airlines is planning an additional $100 million for expansion projects.

The Port of San Juan is now considered the second largest for the cruise ship business in the Caribbean. Several additional infrastructure improvements are planned through the 1990s: the rehabilitation of picturesque Old San Juan; modernization of tourism piers; beautification of the Condado Lagoon and the neighboring touristic zone; expansion of the highway system within and outside of San Juan.

Plebiscite in the Offing

Puerto Rico, which has been part of the United States since 1898, occupies a unique position in the union. It is a commonwealth which elects its own governor and members of a two-house legislature. Governmental responsibilities of the governor and legislature are similar to those in any of the 50 states. The major difference is that Puerto Rico, with a population of 3.5 million, a large portion speaking both Spanish and English, has greater fiscal autonomy although its currency is the U.S. dollar.

Heeding calls from various political parties, Puerto Rico's governor has announced a plan to hold a plebiscite by 1991 in which the electorate would vote on one of three courses: (1) to remain a commonwealth, (2) become the 51st state, or (3) become an independent nation.

Independence seems unlikely, despite a highly vocal minority, because the independence movement has been very weak for the last two decades. The other two options have emerged almost equally matched in the last four polls.

As the subject is discussed in the U.S. Senate during the next few years, a great deal of attention will be focused on Puerto Rico.

Financial Information

Detailed financial information for the Puerto Rico casino industry is not available. However, win statistics are available and the following table summarizes casino revenue for 1986, 1987 and 1988.

Casino revenue for 1988 increased 28.9 percent compared with a 23.7 percent increase for 1987. Like other major casino areas, slot machine revenue is becoming an ever larger portion of casino revenue.

Assistance for preparation of this summary was provided by Carl W. Kortum, Chairman of the Gaming Committee, Puerto Rico Hotel & Tourism Association and Vice President, Williams Hospitality Management Corp.

PUERTO RICO CASINO WIN ($000 Omitted)

Calender Year	1988	%	1987	%	1986	%
Slots	$ 36,458	31.6	$26,160	29.2	$17,675	24.4
Tables	78,999	68.4	63,458	70.8	54,759	75.6
TOTAL	$115,457	100.0	$89,618	100.0	$72,434	100.0

PUERTO RICO
MAJOR HOTEL/CASINOS

San Juan:
- El San Juan
- Sands
- Dutch Inn
- Ramada
- Condado Plaza
- Caribe Hilton
- Clarion

Other Locations:
- Hyatt Dorado
- Hyatt Regency Cerromar
- Mayaguez Hilton
- Palmas del Mar
- La Ceisa Resort

LOTTERY SUMMARY

For the United States lottery industry, 1988 was a year of progress by most benchmarks.

The grand total was just shy of $15 billion for the 27 operations involved, an 18.6 percent increase over fiscal 1987. Net income to the state sponsors rose 15.7 percent, bringing this figure to just over $5.7 billion. However, the profit margin, 38.4 percent on total revenue, continued to decline.

The year-to-year improvement, 1988 versus 1987, makes better reading than the 1987 results when the aggregate total of $12.6 billion for 23 lotteries was up by a scant 3.5 percent over the same 23 lotteries in the 1986 matrix. The total net income for all the states involved had also been flat.

The total results comprise four more lotteries for the states' fiscal years, which, for most, ended June 30. As of November 1988, four additional states voted to join the ranks: Idaho, Indiana, Kentucky and Minnesota. These (together with Virginia and Wisconsin, which started operations) bring the total to 33, and leave very few of the nation's most populated states missing from the census.

The California operation bounced back strongly, with revenues surpassing $2 billion, making it far and away the number one revenue and income producer in the U.S. By contrast, the poor performance of the California Lottery in 1987 badly skewed the entire nationwide results.

Other members of the "Billion Dollar League" included, in order of revenues, New York, Pennsylvania, Massachussets, Illinois, Michigan, New Jersey and Ohio. Of the seven states, all in the "mature category," only one, Illinois, had a small decline in revenue and income.

Other top income producers besides California were New York ($706.7 million, a 6.0 percent increase), Pennsylvania ($592.9 million, a 4.0 percent increase) and New Jersey ($502.2 million, a 6.3 percent increase). Michigan had a significant turnaround with a 19.6 percent revenue increase, producing $488 million in income, a rise of 20.7 percent over fiscal 1987.

The Bay State figures have been revised to eliminate revenue from "charitable game licenses" and to reflect more clearly results from its lottery operations. Even so, Massachussets, with $201 in per capita sales, still ranked number one in this category, only a bit behind Washington, D.C., with $200. On the per-capita scale, powerhouse California ranked far down the line, with $76.81.

Of the remaining states, only three (Colorado, Missouri and West Virginia) posted declines in revenue and income; all the rest posted increases at the top and bottom lines, some of them impressive in percentage terms.

Several Western state lotteries that seemed to have initial start-up difficulties began to show improved results. Oregon chalked up a 59.8 percent gain in revenue and a noteworthy 71.3 percent gain in income. Iowa posted a 36.2 percent revenue increase and a 48.8 percent income gain.

Adding to the overall 1988 luster was the new Florida Lottery, with revenues exceeding $650 million in its first six months of operation. For the full calendar year of 1988, final results will show that the Florida Lottery was the most successful first-year operation ever, based on its population.

Naturally, "totals" and "averages" do not always accurately reflect the financial health of an industry with so many complex parts. As in any such complex framework, the real story lies in the marketing successes and failures of individual operations.

For example, a dramatic highlight of smaller 1988 lottery operations is the continuing success story of the "Tri-State Megabucks Lottery" (Maine, New Hampshire and Vermont). After years of lackluster individual operations, these three New England States joined forces and, in 1987, posted a significant 66 percent revenue jump over 1986. In 1988, revenue climbed again, reaching $195.5 million, a 37.5 percent increase, a year-to-year growth unmatched by any other "mature" lottery.

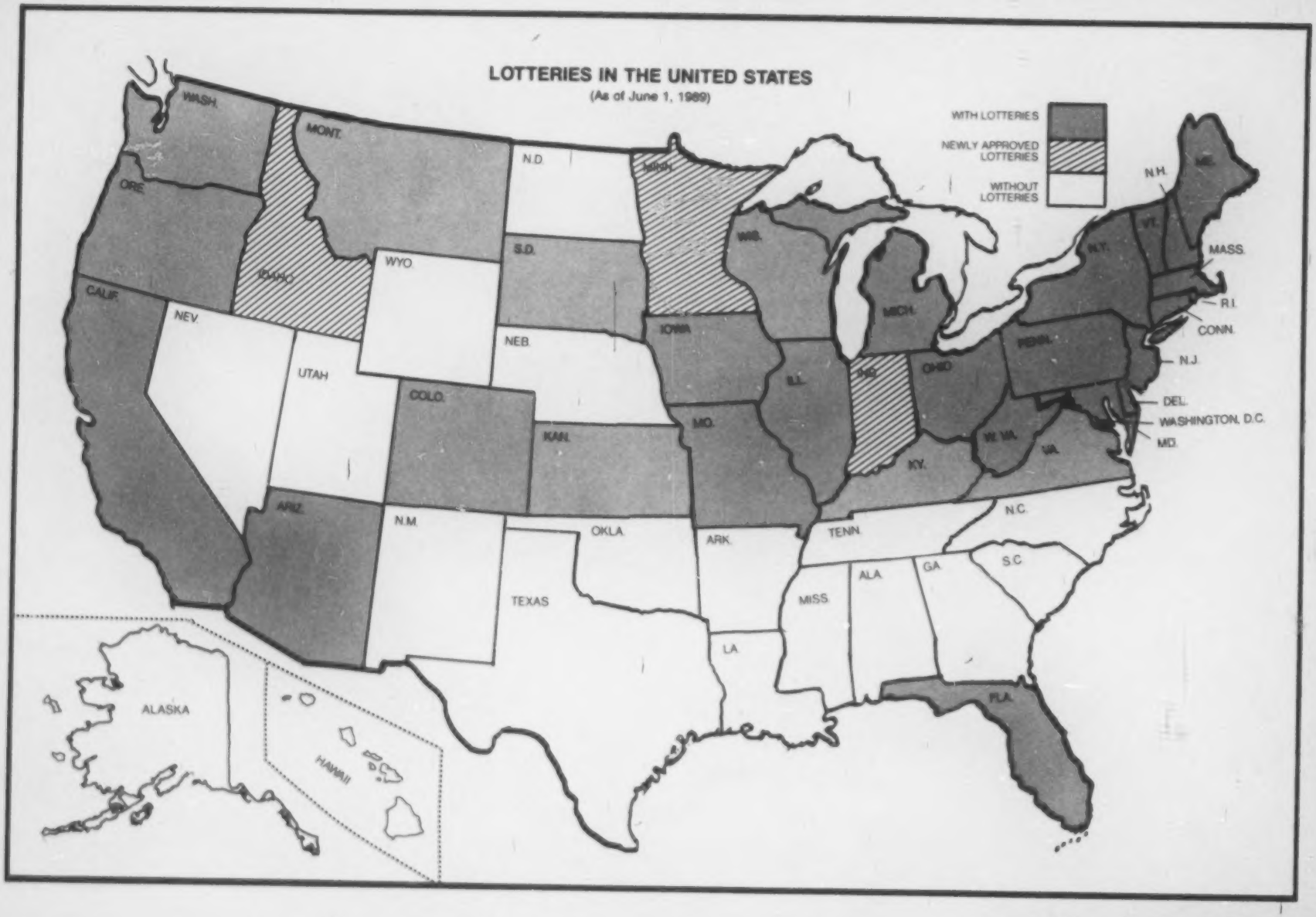
Of particular interest in fiscal 1988 were some of the smaller and mid-size "mature" lotteries which defied the law of averages and went on to increase both revenues and net income. Highlights:

- Connecticut, an old New England standby, boxed in by Massachusetts and New York, still managed to increase sales by 5.0 percent and income by the same percentage. The lottery's net income margin is the highest of any operation, 43.8 percent.
- Delaware had revenue and income increases of over 20 percent.
- Maryland produced a revenue gain of 6.7 percent and an income increase of 3.5 percent. Even more significantly, with per-capita lottery sales of $178.90, the third highest in the U.S., the Maryland operation also produces the highest per-capita income of any U.S. lottery, $75.94.
- As for the seven lotteries that make up Lotto America—Iowa, Kansas, Missouri, Oregon, Rhode Island, Washington, D.C., and West Virginia—results were mixed. Omitting Kansas—which had no prior record, the six remaining states, in aggregate, produced a revenue increase of 9.9 percent, with virtually the same income growth, 9.7 percent. On the other hand, the mix included the substantial gainers of Oregon and Iowa, noted above, as well as two states that showed marked revenue and income declines.

Including Florida, there will be nine lotteries with revenues over $1 billion in fiscal 1989. Overall lottery revenues will continue to grow, providing individual states with funds they would otherwise have to raise, onerously, through taxes.

In fact, state officials and others who are disposed to criticize lotteries on one ground or another might be reminded that these are the only government operations where revenues determine how much a jurisdiction has to spend, rather than vice versa.

Sophistication in individual marketing operations will continue to improve individual revenue and income.



Laventhol & Horwath
Leisure Time Industries Department

Table P
Lottery Operating Results
($000's omitted, except for per capita information)

	Total		Arizona		California		Colorado	
Fiscal Year-End			June		June		June	
	$	%	$	%	$	%	$	%
1988								
Revenue:								
Lottery Sales	$14,728,276	98.6	$172,626	99.9	$2,106,492	99.1	$ 90,900	97.4
Other	205,256	1.4	139	.1	18,511	.9	2,400	2.6
Total	14,933,532	100.0	172,765	100.0	2,125,003	100.0	93,300	100.0
Expenses & Prizes:								
Commissions	775,172	5.2	10,369	6.0	105,316	5.0	5,400	5.8
Other Operating Expenses	924,166	6.2	16,908	9.8	171,323	8.0	14,600	15.6
Prizes	7,506,379	50.2	79,141	45.8	1,047,891	49.3	46,900	50.3
Total	9,205,717	61.6	106,418	61.6	1,324,530	62.3	66,900	71.7
Net Income	$ 5,727,815	38.4	$ 66,347	38.4	$ 800,473	37.7	$ 26,400	28.3
Per Capita[2]:								
Lottery Sale Revenue			$51.02		$76.81		$28.30	
Net Income			19.59		28.93		8.00	
1987								
Revenue	$12,587,225	100.0	$142,189	100.0	$1,406,153	100.0	$115,800	100.0
Net Income	4,952,175	39.3	51,577	36.3	504,014	35.8	36,700	31.7
1986								
Revenue	$12,156,141	100.0	$120,997	100.0	$1,781,881	100.0	$111,300	100.0
Net Income	4,908,571	40.4	42,270	34.9	692,696	38.9	28,400	25.5

N/A — Not applicable.
[1]Information not available.
[2]Estimates of population per the Bureau of Census as of July 1, 1987.

Connecticut		Delaware		Florida[1]		Illinois		Iowa	
June		June		June		June		June	
$	%	$	%	$	%	$	%	$	%
$513,870	100.0	$55,460	99.7	$653,614	99.1	$1,301,464	99.8	$128,949	99.4
		148	.3	5,917	.9	2,351	.2	719	.6
513,870	100.0	55,608	100.0	659,531	100.0	1,303,815	100.0	129,668	100.0
(')		2,773	5.0	35,761	5.4	66,679	5.1	7,135	5.5
24,750	4.8	3,103	5.6	55,991	8.5	58,147	4.5	16,419	12.7
264,120	51.4	29,232	52.5	330,660	50.1	691,062	53.0	65,822	50.7
288,870	56.2	35,108	63.1	422,412	64.0	815,888	62.6	89,376	68.9
$225,000	43.8	$20,500	36.9	$237,119	36.0	$ 487,927	37.4	$ 40,292	31.1
$160.03		$86.34		$54.85		$112.57		$45.75	
70.07		31.83		19.72		42.09		14.21	
$489,284	100.0	$45,937	100.0	N/A		$1,306,169	100.0	$ 95,193	100.0
214,100	43.8	17,050	37.1	N/A		542,876	41.6	27,069	28.4
$429,112	100.0	$41,090	100.0	N/A		$1,287,092	100.0	$ 82,548	100.0
190,850	44.5	16,691	40.6	N/A		540,236	42.0	25,906	31.4

[1]Florida Lottery commenced as of January 1988.

(continued on next page)

Table P *(continued)*
Lottery Operating Results
($000's omitted, except for per capita information)

	Kansas[1]		Maine		Maryland		Massachusetts	
Fiscal Year-End	June		June		June		December	
	$	%	$	%	$	%	$	%
1988								
Revenue:								
Lottery Sales	$65,805	99.3	$82,463	99.0	$811,345	100.0	$1,374,222	99.6
Other	434	.7	825	1.0			5,102	.4
Total	66,239	100.0	83,288	100.0	811,345	100.0	1,379,324	100.0
Expenses & Prizes:								
Commissions	3,618	5.4	5,512	6.6	41,312	5.1	69,015	5.0
Other Operating Expenses	12,645	19.1	9,189	11.1	25,143	3.1	59,975	4.4
Prizes	30,123	45.5	41,321	49.6	400,497	49.4	815,520	59.1
Total	46,386	70.0	56,022	67.3	466,952	57.6	944,510	68.5
Net Income	$19,853	30.0	$27,266	32.7	$344,393	42.4	$434,814	31.5
Per Capita:								
Lottery Sale Revenue	$26.73		$70.16		$178.90		$201.21	
Net Income	7.90	—	22.97		75.94		63.43	
1987								
Revenue	N/A		$58,265	100.0	$760,678	100.0	$1,265,217	100.0
Net Income	N/A		18,206	31.2	333,324	43.8	422,980	33.4
1986								
Revenue	N/A		$38,850	100.0	$718,300	100.0	$1,140,036	100.0
Net Income	N/A		11,846	30.5	323,800	45.1	394,596	34.6

[1]Kansas Lottery commenced as of November 1987.

Michigan		Missouri		Montana[1]		New Hampshire		New Jersey	
September		June		June		June		June	
$	%	$	%	$	%	$	%	$	%
$1,201,082	96.4	$147,762	96.9	$21,787	100.0	$74,289	96.5	$1,174,330	98.6
45,363	3.6	4,714	3.1	6		2,703	3.5	16,450	1.4
1,246,445	100.0	152,476	100.0	21,793	100.0	76,992	100.0	1,190,780	100.0
81,312	6.5	8,790	5.8	1,210	5.6	3,986	5.2	63,195	5.3
89,605	7.2	17,761	11.6	3,293	15.1	6,950	9.0	40,425	3.4
587,091	47.1	67,841	44.5	9,807	45.0	38,078	49.5	584,927	49.1
758,008	60.8	94,392	61.9	14,310	65.7	49,014	63.7	688,547	57.8
$488,437	39.2	$ 58,084	38.1	$ 7,483	34.3	$27,978	36.3	$ 502,233	42.2
$135.48		$29.87		$26.93		$72.84		$115.21	
53.09		11.38		9.24		26.46		65.46	
$1,042,013	100.0	$179,993	100.0	N/A		$58,709	100.0	$1,129,338	100.0
407,055	39.1	66,725	37.1	N/A		20,670	35.2	472,652	41.9
$1,023,688	100.0	$209,094	100.0	N/A		$34,317	100.0	$1,003,296	100.0
415,052	40.5	81,071	38.8	N/A		10,746	31.3	418,248	41.7

[1]Montana Lottery commenced as of June 1987.

(continued on next page)

Table P *(continued)*
Lottery Operating Results
($000's omitted, except for per capita information)

	New York		Ohio		Oregon		Pennsylvania	
Fiscal Year-End	March		June		June		June	
	$	%	$	%	$	%	$	%
1988								
Revenue:								
Lottery Sales	$1,565,936	96.0	$1,069,886	99.5	$159,899	99.0	$1,439,143	98.5
Other	66,072	4.0	4,829	.5	1,640	1.0	21,908	1.5
Total	1,632,008	100.0	1,074,715	100.0	161,539	100.0	1,461,051	100.0
Expenses & Prize.:								
Commissions	93,956	5.8	58,968	5.5	7,600	4.7	75,195	5.1
Other Operating Expenses	96,302	5.9	70,782	6.6	17,458	10.8	54,011	3.7
Prizes	734,983	45.0	569,127	52.9	81,425	50.4	738,927	50.6
Total	925,241	56.7	698,877	65.0	106,483	65.9	868,133	59.4
Net Income	$ 706,767	43.3	$ 375,838	35.0	$ 55,056	34.1	$ 592,918	40.6
Per Capita:								
Lottery Sale Revenue	$91.55		$99.65		$59.30		$122.40	
Net Income	39.65		34.85		20.21		49.67	
1987								
Revenue	$1,511,464	100.0	$1,070,951	100.0	$101,111	100.0	$1,338,523	100.0
Net Income	666,790	44.1	373,862	34.9	32,137	31.8	570,158	42.6
1986								
Revenue	$1,357,662	100.0	$942,748	100.0	$88,657	100.0	$1,320,000	100.0
Net Income	607,854	44.8	383,609	40.7	26,541	29.9	539,200	40.8

Rhode Island		South Dakota[6]		Vermont		Washington		Washington D.C.		West Virginia	
June		June		June		June		September		June	
$	%	$	%	$	%	$	%	$	%	$	%
$61,304	98.3	$26,053	98.7	$35,090	99.6	$214,983	99.7	$122,969	98.8	$56,553	97.9
1,043	1.7	334	1.3	157	.4	735	.3	1,515	1.2	1,241	2.1
62,347	100.0	26,387	100.0	35,247	100.0	215,718	100.0	124,484	100.0	57,794	100.0
4,463	7.2	1,301	4.9	1,776	5.0	10,864	5.0	6,552	5.3	3,114	5.4
5,155	8.3	4,407	16.7	3,150	8.9	19,982	9.3	14,115	11.3	12,577	21.7
30,712	49.2	11,756	44.6	19,374	55.0	102,597	47.6	60,923	48.9	26,522	45.9
40,330	64.7	17,464	66.2	24,300	68.9	133,443	61.9	81,590	65.5	42,213	73.0
$22,017	35.3	$ 8,923	33.8	$10,947	31.1	$ 82,275	38.1	$ 42,894	34.5	$15,581	27.0
$63.23		$37.21		$64.31		$47.53		$200.13		$30.46	
32.23		12.58		19.97		18.13		68.96		8.21	
$58,829	100.0	N/A		$25,472	100.0	$194,497	100.0	$123,136	100.0	$68,304	100.0
21,516	36.6	N/A		7,989	31.4	78,995	40.6	40,348	32.8	25,382	37.2
$57,920	100.0	N/A		$12,478	100.0	$181,725	100.0	$119,902	100.0	$53,448	100.0
21,551	37.2	N/A		3,342	26.8	73,039	40.2	40,017	33.4	21,010	39.3

[6]South Dakota Lottery commenced as of September 1987.

COMMENTS FROM STATE LOTTERY OFFICIALS

The following is a sampling of comments taken from public annual reports of state lotteries. Commentaries from some states were not available, while other state reports did not list an author.

Arizona

"This fiscal year has been filled with changes, challenges and remarkable accomplishments . . ."

"We attribute this success to . . . several changes in our marketing approach. . . ."

California

"The California State Lottery's third year of operation will be recorded as one of dynamic growth and significant results. We repeatedly proved ourself as a premiere lottery, one that has excelled in marketing, security, technological and managerial innovations."

"The Lottery's accomplishments were a direct reflection of our most valued resource: quality people. Over the last three years we have built a staff of highly talented, dedicated individuals who have contributed in countless ways . . ."

" . . . What we achieved in earnings . . . breaks down to $142 for each student, or $4, 284 per average classroom in the state. . . ."

". . . We have surpassed our basic goals over the past year, and we have designed a plan to guide our future growth. As we move forward, we are ever mindful that our retailers and our players are the lifeblood of the Lottery's existence. Our future success will depend on how effectively we have responded to their needs and concerns."

"The Lottery is constantly striving to build a high-quality retailer network and to provide responsible sales support. Doing so demands solid market research to track how Californians feel about Lottery products, and to pinpoint the ever-changing needs of diverse California markets and players."

"To this end, we are continually charting new strategic directions that give us access to the technologies necessary to create and deliver quality products and innovative game features. We listen. We are a lottery created by Californians for Californians. . . ."

John M. Price
Chairman

Chon Gutierrez
Executive Director &
Chief Executive Officer

Colorado

"We will all remember April 29, 1988 as the day the Colorado General Assembly authorized funding of a Lotto game. This action will make it possible for the Colorado Lottery to increase its earning potential . . ."

". . . The start-up of the Lotto game will remove Colorado from a unique category. No other state has had to keep their players interested solely in the Instant game for more than five years. . . ."

". . . The real benefits of the Colorado Lottery can be seen in the projects we fund. Community leaders across the state repeatedly comment that Lottery funds are helping them complete projects that would not otherwise be possible. . . ."

Connecticut

"Fiscal year 1987 - 88 was the sixteenth year of the State's Lottery operation. The sales increase over the preceding year was 5.0 percent with most games showing an increase. . . ."

Delaware

"During fiscal year 1988, the Delaware Lottery continued its 13-year tradition of growth. Both sales and profits increased 20 percent for the year . . ."

"Because of the Lottery's $20.5 million contribution [to education] the State did not have to raise taxes to provide these services—a benefit shared by all Delaware taxpayers. . . ."

". . . To help improve productivity, an evaluation of emerging technologies was begun in fiscal year 1988 and to provide for the Lottery's continued growth, research, design and development of future on-line games was also undertaken. . . ."

Otho R. Brown
Director, Delaware Lottery

Illinois

"The Lottery has become the fourth largest revenue producer in Illinois, following income, sales and utility taxes. While education cannot rely on Lottery profits alone, the Lottery does serve as an important funding source, providing more than 25 percent of the state's $2.03 billion Common School Fund budget in fiscal year 1988. . . ."

". . . The mission of the Illinois State Lottery is to help generate revenue for education through entertainment . . ."

". . . The Lottery experienced a building year as we focused on adjusting our game line-up and enhancing our marketing efforts. Following an extensive review of the entire product offering, the Lotto-7 game (a mid-week companion to Lotto) was withdrawn from the product mix. It was replaced with a low-odds, parimutuel game called Cash-5. Introduced in the fourth quarter of fiscal year 1988, the game is designed to produce lots of winners and has been well received by our players who want cash prizes significantly less than Lotto, yet still substantial. . . ."

James R. Thompson
Governor

Sharon Sharp
Director

Kansas

"Kansans clearly had the "itch to scratch," buying more than seven million tickets in the first week alone, with subsequent sales continuing to exceed projections. . . ."

Highlights from Day One:

"Sold the first lottery ticket within 200 working days after the establishment of the new state agency."

"Joined the first ever coast-to-coast multi-state lottery, 'Lotto America'."

"Fastest in the nation to offer players a Lotto game—only 2½ months from start-up. . . ."

Maine

"Once again the Maine State Lottery continued to set record sales figures in fiscal year 1987 – 88. In fact, for the second year in a row, our Lottery was the third fastest growing state Lottery in the U.S. . . ."

". . . Instant games continued to show the greatest growth of all the Lottery's games . . . [with] a tremendous jump of 99 percent over the previous year. . . ."

Maryland

"During fiscal year 1988, the Maryland State Lottery celebrated its 15th anniversary. This represents 15 years of successful operations which began . . . when the Lottery sold its first $.50 ticket. The Lottery marked the success with a $15 million jackpot and a remote drawing at the Annapolis Mall . . . attended by nearly 3,000 supporters. . . ."

William Donald Schaeffer
Governor

Althea P. Moore
Chairman

William F. Rochford
Director

Massachusetts

". . . In April the Lottery celebrated its 18th year with a record of continuous growth . . ."

". . . This success is rooted in the long-range planning structure built into the Lottery administration at the outset. The Massachusetts Lottery is looked to by lotteries throughout the country for innovation and leadership in game design and technology. . . ."

". . . While the Lottery will not grow at the phenomenal rate seen with the introduction of Instant games in the 1970s or Megabucks in the 1980s, we will consolidate our gains and show steady growth in the future."

Robert Q. Crane
Treasurer and Receiver General
Chairman

James E. Hosker
Executive Director

Michigan

"Without the support of Lottery players throughout our Great Lake State, it would be much more difficult to achieve our goal of quality education for all. Because of the Lottery's contributions to our state School Aid Fund over the years, we have been able to increase state aid to schools without a corresponding increase of the burden on taxpayers. . . ."

". . . Fiscal year 1988 might best be described as an 'Olympian' year . . . We broke at least 15 records during the year—and that doesn't break the record set for breaking the most records! . . ."

"[An] important factor in our growth was the completion of an expanded retailer terminal network. . . ."

". . . While we cannot reasonably expect to maintain the tremendous rate of growth experienced during fiscal 1988, the coming year will find the Lottery more responsive and imaginative than in the past. . . ."

James J. Blanchard
Governor

Michael J. Carr
Lottery Commissioner

Missouri

". . . The Missouri Lottery has gone through a tumultuous beginning. The first year can only be described as 'frenzied' as the Lottery prepared for the introduction of the new enterprise to the state. Year two was spent in fine-tuning the marketing aspects of the games and attempting to build a strong base with a view toward long-term growth. But year three may well go down . . . as the turning point for the Lottery in Missouri."

"In fiscal 1987, an independent audit confirmed the Lottery Commissioners' concerns that without significant legislative changes, Missouri's Lottery might fail. . . ."

". . . Once financial and Lottery experts confirmed these conclusions, it didn't take long for wheels of progress to set in motion. During the 1988 legislative session, the legislature agreed to present voters with changes that would remove the undesirable restrictions and give the Lottery the tools necessary to offer Missourians a fun and profitable Lottery."

"Already the tone has been set with changes to the Lotto games that brought bigger, faster growing jackpots and created renewed excitement in the game. The Instant game was revamped to put more money into more prizes for our players, and the Lottery joined the newest venture in the Lottery industry, the multi-state Lottery game, Lotto America."

Montana

"Starting a multimillion-dollar business one week earlier than mandated by law was no easy task. Yet the Montana Lottery set a national per-capita opening day sales record. . . ."

"And we're one of the most cost efficient lotteries in the nation. After handling $25.6 million in sales transactions, with over 1,000 retail sales agents, the Montana Lottery did not write off a single bad debt in its first year! . . ."

Diana Dowling
Director

New Hampshire

". . . New Hampshire Sweeps has once again exceeded expectations."

"Overall ticket sales have increased 32 percent and Lottery revenues have reached record levels. . . ."

"During the past year, our products have become even more consumer-oriented, based on information we have obtained regarding customer needs, preferences and buying patterns. As our on-line and off-line games have increased in popularity, we have responded accordingly by increasing both the number of field sales representatives and retail outlets."

James E. Wimsatt
Executive Director

Howard W. Keegan
Commission Chairman

New Jersey

". . . While there were individual expressions of support or opposition, the voice of the people . . . came through loud and clear during fiscal 1988. The . . . Star-Ledger/Eagleton statewide poll reported that more than 3 out of 4 New Jersey residents approve the Lottery and support it as a legitimate way for the State to raise funds. . . ."

"The Lottery responded to this vote of confidence by achieving new highs in all categories in fiscal 1988. The most significant milestone came when the Lottery, for the first time in its history, went over the half-billion dollar mark in its contributions to the State. . . ."

". . . [On every dollar in sales] the New Jersey Lottery spends less than two cents . . . to operate and promote a billion-dollar enterprise. . . ."

Barbara Marrow-Mooring
Executive Director

Peter J. O'Hagan, Jr.
Chairman
Lottery Commission

New York

". . . Fiscal year 1987 – 88 was a record year for the New York State Lottery with sales and net revenue to the State increasing more than 10 percent . . . We have established a long-term objective for the Lottery to increase sales and revenues measured by per-capita standards to match the performance of neighboring industrialized states. Based upon current sales and revenue per capita, the New York Lottery has a long way to grow with its current mix of products."

"Our strategy to achieve this objective is three-pronged:

- Enhancing the attractiveness of our products through . . . the implementation of higher level of prize payout for our Instant Games . . . and offering [for our on-line games] our customers . . . a feature commonly referred to as 'Quick Pick'."
- The implementation . . . of a more sophisticated and attractive advertising approach featuring everyday people revealing their dreams of winning.
- A fresh look at the methods and criteria by which we license retail establishments . . ."

Russell V. Gladieux
Acting Director

Pennsylvania

"Since the Pennsylvania Lottery began in 1972, it has funded more than $4.2 billion in services and programs for our state's older citizens."

"Primarily because of the Lottery, Pennsylvania's older citizens enjoy the widest array of services of any state in the nation. . . ."

". . . In fiscal 1987 – 1988, the Pennsylvania Lottery had a landmark year. Once again we exceeded a billion dollars in sales, with more than $100 million increase over the previous year. . . . By all measures, today's Lottery is healthy. . . ."

". . . We have taken and will continue to take prudent and responsible steps to ensure the integrity of both the Lottery and the Lottery Fund. . . ."

". . . Citizens over age 60 represent the fastest growing segment of our state's population. Continuing the remarkable success of the Pennsylvania Lottery and sustaining the host of programs for older residents becomes more important as we enter the 1990s."

Robert P. Casey
Governor

Rhode Island

"This year marks the Rhode Island Lottery's fourteenth successful year of operation. . . . The Lot's role is exemplified by a progressive generation of important funds for state and public programs. . . ."

". . . This was also a banner year because 1988 saw the beginning of Lotto-America, Rhode Island's multi-state lottery game. . . ."

Peter J. O'Connell
Executive Director

South Dakota

"The South Dakota Lottery's first year of sales has been a truly remarkable first year. . . . Before the first ticket was sold the Lottery was on the winning track. An unprecedented union between the South Dakota Lottery and the Arizona Lottery led to a contract for the Lottery accounting software at a savings . . . of over $1.4 million. . . ."

". . . [Despite achievements] challenges remain . . . Our largest challenge, with just one product, is to sustain the level of Instant game sales as we enter our second year. We are optimistic that with new and innovative game designs and marketing techniques, we can minimize the decline of instant ticket sales in the second year experienced by every state Lottery. . . ."

". . . It is also important that product expansion is authorized by the legislature to maximize Lottery revenues to the State General Fund in the year ahead. . . ."

Jack Theeler
Chairman

Susan L. Walker
Executive Director

Vermont

"The Vermont Lottery celebrated its tenth anniversary this year . . ."

". . . Fiscal 1988 could best be described as a year of fine tuning for both the long- and short-term management of the Vermont Lottery. Although the consistent success of the Lottery warrants no drastic changes for the future, certain adjustments should provide for additional growth."

"Productivity gains, coupled with increasing sales volume, translate into lower administrative costs as a percentage of sales. And measures taken over the years to increase productivity have certainly paid off. In fiscal year 1983, administrative expenses were 18.3 percent of sales. By fiscal year 1988, that percentage had been cut nearly two-thirds, to 6.3 percent."

"We think there is still some room for improvement, so a number of seeds were planted in fiscal year 1988 which should begin to bear fruit in fiscal year 1989. Many are the first of their kind in any Lottery nationwide. . . ."

". . . For the second year in a row, the most popular product . . . was the Instant ticket game. . . ."

". . . Participation in the Tri-State Lottery has afforded the Vermont Lottery top-notch market research . . ."

". . . In comparison to the booming growth of the last few years, the Vermont Lottery's sales curve is expected to gradually level off. . . ."

Sarah E. Vail, Esq.
Chairman

James M. Bolton
Director

Washington, D.C.

". . . The most optimistic 1982 projections predicted that after six years of operations, our total sales [in aggregate, for the period] would be a little under $700 million. In fact, we reached our $1 billion milestone ten months before our sixth birthday."

". . . Our sales figures were insufficient endorsement of our success [but] an independent research study attested to our popularity. An overwhelming percentage of residents perceive our drawings as fair, feel that the Lottery is a worthwhile contributor to the state's general fund, enjoy having the Lottery as an institution in this state . . ."

Evelyn Y. Sun
Lottery Director

Judith Lonnquist
Commission Chair

West Virginia

"Fiscal year 1987 - 88 has been an important period in the development of the West Virginia Lottery. We have experienced some dramatic and positive changes during our third year of operation. These modifications have helped us mature from the novelty of our introduction to a steady income source for the state."

"The first major change was made in our Instant game, which has been the staple of the Lottery since start-up. Players have become more accustomed to the Instant game, and our research revealed they wanted more chances to win on-the-spot. In response to our players, we phased out the Grand Prize Show and concentrated the money that funded its prizes on the Instant tickets which, in turn, increased the odds of winning immediately."

"With the introduction of Lotto America, we added a larger jackpot to our product mix . . . Lotto America enables us to create jackpots which compete with lotteries in larger, more mature Lottery states. . . ."

". . . Since the introduction of Lotto America, the peaks and valleys we previously observed in our sales reports literally have vanished. We not only are experiencing greater stabilization, which will make revenue estimates easier to project, but also an on-line player base that is steadily increasing. . . ."

". . . As the Lottery matures, we are defining product markets and implementing a detailed marketing plan. . . ."

Oscar Wallace, Jr.
Director

Samuel N. Kusic
Chairman, Lottery Commission

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